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# China Report

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3 September 1985

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NATIONAL POLICY AND ISSUES

JOURNAL STUDIES MILITARY-CIVILIAN INDUSTRIAL SYSTEM

HK 180110 Beijing JINGJI YANJIU in Chinese No 5, 20 May 85 pp 68-73

[Article by Sun Zhenhuan [1327 2182 3883] of the State Economic Commission: "A Study on the Question of Integrated Military-Civilian Industrial System" -- written in March 1985]

[Text] Is China's national defense industry an independent system of war industry, or is it developing in the direction of military-civilian integration according to the principle of combining military with civilian use and combining peacetime with wartime use? This has always been a controversial question. It is also an important issue that must be studied and resolved in the present reform of the economic structure. Here, by the way of introduction, I would like to say a few words on a number of related questions. It is hoped that I can get some valuable opinions in return.

A System Which Separates the Military from the Civilian Has More Disadvantages than Advantages

In our country, civilian machinery processing and military machinery processing have always existed as two independent systems, each having its own personnel setup. There are no links whatsoever between military and civilian plants, and each plant tends to produce a single product. On the one hand, military industrial enterprises find much of their productive capacity lying idle in peacetime because their tasks of producing military supplies are light, but then they cannot cope with the huge and pressing demand for such goods in wartime. On the other hand, for some civilian products, it is necessary to invest in new projects (or extensions) because the productive capacity of civilian industrial enterprises is insufficient. Meanwhile, in order to meet the needs of converting to the production of military supplies in wartime, some civilian industrial enterprises have also invested in special production lines (workshops) for military supplies and mobilization. After their completion, most of these production lines are shut up because they have nothing to do. The problems confronting the civilian machine-building industries are also complicated. There are professional machine-building departments as well as machine-building industries run by departments that do not specialize in machine-building. There are also machine-building industries run by various provinces, autonomous regions, municipalities directly under the central authority, districts (cities), counties and even townships and towns. In some departments and districts, the productive capacity of machinery plants is left idle, while in others efforts are



being made to build or extend machinery plants that produce the same kinds of product. Such duplication at a low level has been going on for a long time, and the contradiction between "not having sufficient to eat" (some plants have productive capacity lying idle) and "having something too big to swallow" (some plants cannot produce high-grade, precision and advanced products and have to rely on import) has remained unresolved.

Because all enterprises want to become "self-sufficient" and be in a position where they "do not have to seek help from anyone," and because of unreasonable pricing and taxation, the degree of specialization in our machine-building industries remains low and the structure of "big and complete" and "small but complete" enterprises has yet to be properly readjusted after all this time. According to statistics, among China's machine-building enterprises, 69 percent have casting shops, 59 percent have forging shops, 66 percent have heat treatment facilities, and over 80 percent are all-purpose plants. In enterprises in industrially well-developed countries, over 80 percent of the principal products are products of specialized production.

Because of the rigid demarcation between military and civilian industries and because of certain economic policies, military technologies become divorced from civilian technologies. This has brought adverse effects on China's four modernizations. For example, China successfully trial-manufactured its first plane in 1954 and has produced different types of military aircraft over the last 30 years. But despite the fact that we have attained a given technological level and accumulated considerable practical experience, basically we have not yet produced any civilian airliners that are suitable for use in our civil aviation. China is the fifth country in the world to have successfully tested atom bombs and has set up production systems for processing secondary minerals, water minerals, enriched uranium, nuclear components, and so on. But 20 years after we exploded our first atom bomb in 1964, we still do not have a single nuclear power plant. In 1983 there were already over 300 nuclear power plants in the world, with a total installed capacity of 200 million kilowatts. China is the third country in the world to have launched man-made satellites, but so far we have only launched one experimental communications satellite in our development of civilian satellites.

Because of the multi-track economic structure that separates military from civilian enterprises, units producing mechanical and electrical products for export are numerous, and each of them goes its own way in its external dealings. They cut the ground from under their rival's feet by lowering their price. As a result, foreign firms have reaped staggering profits while our country suffered losses.

Practice over the past 30 and more years shows that the multi-track economic structure that separates military from civilian enterprises indeed has more disadvantages than advantages. It is not conducive to bringing into play the productive capacity of enterprises, promoting coordination among specialized departments, making the most of investment, and making comprehensive use of resources, and has caused the state to suffer considerable losses in financial, material, and human resources. The overall picture is that machine-building industries have poor economic results and their products cannot compete in

international markets. For example, in industrially well-developed countries, the ratio of fixed assets to the total value of industrial production is normally 1:2, 1:3 or even more, but in our country, the ratio is 1:1. In terms of returns on investment, China is three times poorer than Japan. In terms of labor productivity, the difference is about 10 times. In terms of energy consumption, China tops these countries by two to five times. In industrially well developed countries, the export of machinery normally accounts for between 40 and 60 percent of total export, but in China it only accounts for about 5 percent. Again, the difference is about 10 times.

#### Military-Civilian Integration is a Special Feature of the Production of Modern Military Equipment

A special feature of modern military equipment is that it is technology-intensive products that see rapid changes. There is little need for these products in peacetime, but in times of war the demand is both huge and pressing. This special feature determines that we must implement the principle of military-civilian integration in our industrial production and construction. Under the existing structure, military-civilian integration in the industrial field chiefly refers to the integration of military industries and civilian industries. Military industries must fully utilize their existing productive capacity. While striving to fulfill tasks of producing military supplies, they should develop the production of civilian products. Civilian industries must take wartime needs into account and make the necessary preparation for conversion to the production of military supplies in the event of the outbreak of war. How should military-civilian integration be carried out? There are different views in this regard. In my opinion, we must carry out work in four aspects: First, in regard to the management structure, we must reform the structure that separates military and civilian enterprises and bring about military-civilian integration. Second, in regard to productive capacity, we must combine the military and civilian uses of the means of production of capital construction projects and technological transformation projects. Third, we must bring about integrated use of products (targeted consumers). Fourth, we must bring about integration in terms of technology and technological processes. In these four aspects, the better we fulfill the task of military-civilian integration, the faster we can shift to military production; the greater our adaptability and the better our economic results in peacetime, the greater will be our potential for meeting wartime needs when war breaks out. Integration in these four aspects is inter-related. Putting an end to the present state of military-civilian separation and bringing about military-civilian integration is the principal problem. Once this principal problem has been resolved, integration in the other three aspects should be a fairly easy task.

Judging from the situation in major countries of the world, the production of military products and civilian products is basically integrated. However, because conditions differ from country to country, there are different forms of integration.

The United States represents one category. The administration does not have an independent and huge military industrial department. With the exception of a few ammunition and firearm factories that are state-owned, all other weapons and

equipment, including airplanes, cannons, tanks, guided missiles, naval vessels and other large weapons, are produced by private enterprises that produce civilian products. None of the big U.S. companies exclusively produces civilian or military products. They produce both. There are roughly five ways in which military-civilian integration is carried out in U.S. companies: 1. Integration at the top and division at lower levels in the production of military and civilian products. Take the Boeing and McDonnell-Douglas companies for example. They both manufacture passenger airliners and civilian transport planes as well as various types of military aircraft. In both cases, military aircraft subsidiaries are set up under the parent company. Integration at the top level is the basic form. Division at lower levels is intended to suit the special requirements of military supplies and facilitate professional management. 2. Integrated manufacturing and processing and separate designing and assembling in the production of military and civilian products. For example, the designing of military aircraft and the designing of civilian aircraft are carried out by separate departments in the General Electric Company, but their manufacturing is done by one and the same department. Some of the parts and components for the F-15 fighters produced by the McDonnell-Douglas Company are processed together with parts and components for civilian aircraft. However, military and civilian aircraft are assembled separately. 3. With some military products, such as large electronic computers, the software is manufactured separately from software for civilian use, for security reasons. However, the hardware for both is manufactured together. 4. With some military products that belong to the category of instruments and meters and are not main engines, no distinction is made between military and civilian uses both in production and in management. 5. Some products are for both military and civilian use. The only difference between them lies in their function and requirement. No distinction is made between the military and the civilian in the manufacturing of these products. These five forms of integration practiced in the United States have one thing in common, which is, the need to conform to economic principles and meet the needs of industrial production and national defense.

The Soviet Union represents another category. The whole industrial system is centered round the massive military industry. In particular, about 60 percent of the machine-building industries are in the service of the military. Military-civilian integration is practiced in military and civilian industries alike. Aside from producing military products, the eight military industrial departments also turn out huge quantities of civilian products at ordinary times. In the early 1970's, the output value of civilian products already accounted for 42 percent of the total output value. On the other hand, the great number of military production lines in the civilian machine-building industry, light industry, chemical engineering and other industries also shoulder quite a heavy task of producing military products in peacetime. This is called "adaptable production." According to 1978 statistics, more than 8 million professionals were engaged in military industries in the Soviet Union.

The GDR and Japan represent yet another category. After World War II, they were both defeated nations. Restricted by this status, neither government could set up its own independent military industry. They had to rely solely on private enterprises for the research and production of military products. In the GDR, the production of cannons, armored cars, tanks, anti-tank missiles, aircraft, naval vessels and so on is monopolized by a few big companies. Japan's

"defense industry" is formed by huge enterprises in various fields. In 1980, about 45,000 enterprises had signed contracts with the Department of Defense.

To sum up, there are basically two forms of military-civilian integration outside China. One is represented by the United States and the other is represented by the Soviet Union. These two forms are mainly determined by their respective social systems. The United States practices a commodity economy based on the capitalist system of private ownership. Superprofits are used to attract and stimulate the capitalists into continually improving military production techniques and developing military production. The Soviet Union practices a planned economy based on public ownership, where production and management is highly centralized. A low-profit policy is adopted in the production of military products. Mandatory planning is mainly relied on in the development of the production of military products. These two distinctly different forms of integration have their advantages and disadvantages. If we mechanically adopt the pattern of another country without taking our national conditions into account, it is quite obvious that we will have very little chance of success.

#### Military-Civilian Integration Has Many Advantages

Practical experience at home and abroad shows that it is in conformity with objective economic laws and the laws of war to implement the principle of combining military with civilian use, combining peacetime with wartime use, and making civilian enterprises produce military products as well in peacetime national industrial production and construction. Military-Civilian integration has the following advantages:

1. It can fully bring into play the productive capacity of enterprises. Existing military enterprises may fully utilize their available productive capacity to develop civilian production in peacetime when they have fulfilled their military production tasks. The available productive capacity of civilian enterprises may be used to produce certain military goods in short supply.
2. It is conducive to overcoming the drawback of duplication in construction, trial production, importation and manufacturing.
3. It can save investment in construction. According to corrected estimates, newly-developed military-civilian projects may save investment by 40 percent compared with projects that specialize in one field, and by 25 percent compared with projects that take on "an additional task" after completing the original one.
4. It can better meet wartime needs. In times of war, due to the rapid expansion of the military establishment, the urgent need to fit out the vast number of militiamen and the huge drain on arms and ammunition, vast quantities of arms and equipment, ammunition and necessary accessories, as well as military supplies will be desperately needed. Only by mobilizing the entire industrial force to step up production will we be able to ensure wartime needs. During World War II, over 95 percent of U.S. military equipment and ammunition were produced by mobilizing civilian enterprises. Historical experience shows that only by doing a good job of military-civilian integration in peacetime will we be able to rapidly mobilize the entire industrial force to effectively meet the pressing demand for various types of military equipment, ammunition, and supplies in times of war.

5. It is conducive to technological progress. Military-civilian integration facilitates the timely application of advanced military technology in the production of civilian products and the application of advanced civilian technology in the production of military products, and ensures that the two permeate and promote each other.

6. It is conducive to centralizing manpower and material resources for the purpose of better serving the four modernizations. After reforming the present system that separates the military from the civilian, we will be able to fully bring into play the role of scientific and technological personnel on the military and civilian fronts and fully bring into play existing advanced facilities and testing and experimental devices. This is conducive to the comprehensive utilization of resources. In this way, we will be able to do a better job of providing advanced military equipment for the modernization of national defense while serving national economic construction and technological transformation, satisfying the daily growing needs of the people's material and cultural life, and expanding export.

7. In serving the dual purpose of producing military and civilian products, enterprises can help train large numbers of qualified personnel in both fields. Having mastered the skills of producing military and civilian products, the scientific and technological personnel and staff and workers of these enterprises will be able to serve the four modernizations by developing production in peacetime and serve the resistance of aggression in wartime.

#### The Method and Steps For Establishing Military-Civilian Integration

The "Decision on the Reform of the Economic Structure" adopted at the 3d Plenary Session of the 12th CPC Central Committee clearly affirmed the fact that China's socialist economy is a planned commodity economy based on public ownership and pointed out that the full development of the commodity economy is a prerequisite for our economic modernization.

The military industry is an important component of the national economy. Military enterprises and civilian enterprises have their general and particular characteristics. On the whole, the production of civilian products in military enterprises is commodity production under the guidance of state plans. There is no difference in principle on this matter. However, views differ on whether or not arms and equipment are commodities. I think that arms and equipment are also commodities, and special kinds of commodities at that. Their trial-manufacturing, production, exchange and consumption all have something special, and have the special characteristic of being little needed in peacetime but greatly and urgently needed in wartime. Thus, in the reform of the economic structure, we should proceed from these special characteristics and work out a reform program that conforms with China's conditions in our restructuring of the military industry.

In developing our country's military and civilian industries, how can we suit both peacetime and wartime needs and take rational distribution into account while achieving better economic results? In my opinion, an effective method is to reform the multi-track economic structure, establish an economic structure

based on military-civilian integration, and organize integrated military-civilian industrial companies in accordance with the principle of having similar technological procedures and product mix with support from cities. For example, tanks, tractors and caterpillar tractors may be grouped under one company, and heavy machinery, heavy-caliber guns and such products may be grouped under another company. A separate company may be set up for diesel generators, and diesel units produced by different departments and localities may be organized by this company. These companies will produce military as well as civilian products, and will turn out more civilian goods in peacetime and more military goods in wartime. "Big and complete" and "small but complete" enterprises should be re-adjusted and reorganized, and their production should be organized according to the principle of coordination among specialized departments. This kind of integrated military-civilian industrial company can not only fully bring into play the productive capacity of enterprises and contribute to technological progress and the improvement of economic results, but will facilitate the development, standardization, popularization and serialization of technology. It will be more effective than the existing system when it comes to expanding civilian production in peacetime and expanding military production in wartime. The reform of the few existing military industrial departments may be carried out in conjunction with the reform of civilian industrial departments. Or, integrated military-civilian management organs may be organized according to profession, and they will exercise the function of government organs in managing the macroeconomy. For example, they are to study the development strategies for their own trade, formulate technological and economic policies, programs and plans, organize and coordinate development plans and economic relations between enterprises, formulate and supervise the implementation of economic laws, organize economic information and technological exchange, supervision and inspection, and so on.

Judging from actual conditions, it is unlikely that we can accomplish the task of reforming the multi-track economic structure of the machine-building industry, break the bounds of military and civilian enterprises and organize integrated military-civilian industrial companies in the near future because it involves a good many complicated problems. However, I think that in so far as our direction is concerned, we should unswervingly move in the direction of the single-track system of military-civilian integration. As far as the steps are concerned, we must take the situation in all spheres into account, act with caution, and proceed with a plan. As for sequence, we should tackle the easy tasks first, proceed in an orderly way and do things one at a time. Since arms and equipment have the above-mentioned characteristics, we should deal with the delegation of power to military enterprises on the merits of each case. For example, the development and production of strategic weapons, being rather complicated, should best be directly managed by competent central departments as things now stand. It is also inadvisable to delegate power to units responsible for the development of air planes and heavy weapons and principal enterprises producing these items at this stage. As for enterprises that produce ordinary light arms, meters, components, and so on, the power of management may be delegated to city authorities by groups and by stages according to the merits of each case. Departments in charge of military industries should streamline administration, institute decentralization, gradually bring about the separation of the functions of government and enterprises, and expand the decisionmaking power of enterprises. In the production of civilian products, it is necessary to do away



with barriers between the military and the civilian, between departments and between regions, and to develop coordination among specialized departments and horizontal links. Before the multi-track system that separates the military from the civilian is basically replaced, it is suggested that positive efforts be made in the following 10 respects:

1. Proceeding from planning, we should strengthen management of the trade, put military and civilian industries under overall planning in the spirit of "coordinating all the activities of the nation as in a chess game," bring about overall balance between the military and the civilian, and make rational arrangements for military and civilian products. Military enterprises should carry out readjustment and transformation in accordance with the requirements for military-civilian integration. Proceeding from the characteristics and the technological advantages they enjoy, military industries should aim at still higher technological standards, go all out to develop civilian products after having fulfilled the military tasks, and strive harder at developing new products, high-grade and precision products, and products that are either absent or in short supply.
2. As in the production of civilian products, it is also necessary to institute the economic contract system in the production of military products. Armed forces units and production enterprises alike should abide by economic contracts. On the basis of contracts already signed, production should be brought into the orbit of mandatory planning and top priority should be accorded to it.
3. In accordance with the existing production conditions of enterprises, and provided that no capital construction projects or major technological and organizational measures are being carried out, military enterprises should be called upon to produce certain civilian products if their undertaking the task is deemed more economical and reasonable. Conversely, civilian enterprises should be called upon to produce certain military products if their undertaking the task is deemed more economical and reasonable.
4. It is necessary to strictly keep duplicate construction under control. If a particular civilian product produced by a military enterprise can satisfy social needs, there is no need to build another civilian plant that produces the same product. Likewise, if a particular military product produced by a civilian enterprise can satisfy military needs, there is no need to build another military plant that produces the same product.
5. Large machine-building projects started in the future must possess two types of productive capacity. Every enterprise, be it military or civilian, must be designed and built according to the requirement of combining military with civilian use and combining peacetime with wartime use. In product planning, proper arrangements should be made in accordance with the principles of proximity of technological processes and product mix and coordination among specialized departments so that each enterprise will have both the capacity for producing military products and the capacity for producing civilian products and will be able to carry out production in keeping with the needs of the state and society whether in peacetime or in wartime.
6. In keeping with the principle of "sharing the benefits as well as the risks," different types of combines should be organized. By effectively organizing

enterprises of the same trade into combines, we should be able to solve the problems of blind development, duplicate construction, multi-headed leadership, barriers, serious waste, and so on, in our city or region, gradually make rational the line-up of enterprises, boost the degree of specialization and improve economic results.

7. We should organize the mutual popularization of advanced technology and scientific and technological achievements between military and civilian industrial departments, formulate reasonable economic policies, and institute the system of royalties. The interflow of scientific and technological information should be strengthened, and more military-civilian links should be opened up.

8. Military and civilian industrial departments, enterprises, the armed force units, different localities and other forces should be organized to jointly develop general military-civilian technology and integrated military-civilian projects. In peacetime, they should serve the four modernizations, train qualified personnel who are well versed in both military and civilian industrial skills, use civilian production to set off military production, improve the performance of military products, and raise the level of the technical qualities and military equipment of the armed forces. In wartime, they should switch to military production and serve the war against aggression.

9. The work of standardization should be strengthened. Taking product designs as the point of departure, efforts should be made to promote the production of goods that can serve both military and civilian needs in the machine-building, electronics, shipbuilding, chemical engineering, light industrial, building materials, textile, iron and steel, non-ferrous metal, and other industries. In peacetime, efforts should be made to increase production, reduce cost, and improve economic results. In wartime, supply and requisition may be sought in the neighborhood to serve war needs.

10. Control over the export of mechanical and electrical products should be strengthened. All localities and departments (including military industrial departments) that produce mechanical and electrical products must adhere to the "three unified and one relevant" method of management. In other words, they must adhere to unified policies, unified planning, and unified pricing and be managed by relevant departments. With ports as centers, the joint handling of products of the same category should be organized. Coordinating organs that are semi-official in nature should be set up to work out timely solutions to problems encountered in the export of mechanical and electrical products. These organs will work with one heart and one mind and adopt a unified approach in their external dealings to ensure that "the fertility of their fields does not escape to someone else's fields."

If we adopt the above measures, we should be able to yield notable comprehensive results in the following six aspects: First, we should be able to bring into play the productive capacity of existing enterprises and minimize the drawbacks of unnecessary duplicate construction, trial-manufacturing, importation and production. Second, we should be able to save investment, shorten the construction cycle, and achieve a dual purpose in peacetime construction. Third, we should be able to increase the capacity of enterprises for the production of many



different varieties in order to satisfy social needs and benefit both the military and the civilian. Fourth, by entrusting civilian industries with the task of producing military products, we can improve the economic mechanisms and the ability of the industrial structure to meet contingencies, and create the necessary conditions for switching to another line of production or for expanding production in wartime. Should war break out, we would be able to quickly switch to the production of military products and provide the necessary military equipment. Fifth, we should be able to improve the performance of military products, raise the level of the technical qualities and military equipment of the armed forces, train qualified personnel who are well versed in both military and civilian industrial skills and reduce military spending. Sixth, we should be able to overcome the drawbacks of multi-headed export and trying to beat one's rivals by offering reduced prices so that the state and the people can obtain more substantial benefits.

CSO: 4006/860-F

NATIONAL POLICY AND ISSUES

PRC ECONOMIST STRESSES VALUE OF STUDY OF INVESTMENT

HK071420 Beijing JINGJIXUE ZHOUBAO in Chinese 28 Jul 85 p 1

[Text] Recently, famous economist Ma Hong, who is also the general director of the Development Research Center of the State Council, said at the inaugural meeting of the Chinese Society of Investment Studies that it is necessary to place the academic study of investment in an important position in our economic studies in light of the needs in carrying out the party's general task in the new period.

Ma Hong pointed out that the study of investment is a branch of science that requires us to apply Marxist economic theory, especially the theory on reproduction, to study the best way to utilize our financial resources. In this regard, there is some general order that we should follow. Investment is the most important aspect in our use of financial resources. Making investments not only determines the development of the economy in society at the immediate stage, but it also has a bearing on the future. If we want to have a reasonable economic structure, production structure, product structure, and consumption structure, in the final analysis, we must first have a reasonable investment structure.

He emphasized that to solve the issue of using our financial resources in the most economical way, we must stipulate that investment in fixed assets is made on a compensable basis. Henceforth, all investments in profitmaking enterprises should be made on a compensable basis, and regulations should be formulated for investments in non-profitmaking institutions and undertakings. For example, interest should be paid by the relevant state departments for such investments. The system of the state supplying funds at no cost must not continue any longer.

He said: In order to achieve the best economic results, the investment decisions must be made in a scientific way, and there should be a scientific process of deciding investments. The old system for handling capital construction is no longer suited to the new situation and must be thoroughly reformed. Feasibility studies must be made before we make an investment decision. A number of schemes should be compared and scientific assessments should be made before we start an investment project. Investment decision makers should bear economic and legal responsibility for the starting and completion of the projects.

Ma Hong said that the new historical period in our country has put forward the following new subjects for the study of investment: 1) The study of investment

should fully reflect the influence of the new technological revolution in the world and should promote technological progress in our country. 2) Studies should explore and reflect the transition of our economic system from an old pattern to a new pattern and the establishment of a new management system which is vigorous and dynamic. 3) During the seventh 5-year plan, our economy will change from the pattern of direct regulation and control through mandatory plans to the pattern of indirect regulation and control through guidance plans. This will require major reforms in the fields of pricing, financial management, banking, and especially in the field of investment. How to exercise overall economic management and enliven microeconomic activities will be a major subject in the study of investment.

CSO: 4006/857-F

NATIONAL POLICY AND ISSUES

BEIJING PRESS CONFERENCE ON NONSTAPLE FOOD PRICES

SK080401 Beijing City Service in Mandarin 1000 GMT 26 Jul 85

[Text] A responsible comrade of the Municipal Price Bureau announced at a press conference held this afternoon that Beijing Municipality has achieved initial success in easing the price restrictions of nonstaple foods, including meat, poultry, eggs, vegetables, and fish.

In referring to the municipality's current decline of the sales volume of pork and the increased amount of pork kept in stock, this responsible person said that the relevant municipal departments have decided that from 22 July the prices of pork will be differentiated according to its different qualities. The prices of lean meat and tenderloin will rise and that of spareribs, meat mince, and streaky pork will decline.

In referring to the sales of beef and mutton, he said: At present the market purchasing power of beef is weak. Some nonstaple food stores have directly purchased beef from production areas; therefore, the prices of beef have declined. The prices of mutton, however, have slightly risen thanks to the increase in the sales volume after the price restrictions have been eased.

The responsible comrade of the municipal Price Bureau also explained the problem of inadequate egg supplies which concerned the people most. He said: The short supply of eggs is attributed to the low purchasing prices and the outflow of eggs from the municipality. The relevant municipal departments have decided to allow the egg business companies to establish contacts with production areas in order to reduce the number of intermediate links and to promote sales. In addition, peasants may also directly sell their eggs to the various retail stores. In this way, the price of eggs may rise slightly. In order to ensure egg supplies in the municipality, the relevant departments will also control the sales of eggs of the municipality's six large chicken farms in an effort to prevent the outflow of eggs and to gradually enable municipal egg supplies to become normal.

CSO: 4006/857

PROVINCIAL AFFAIRS

YUNNAN GOVERNOR STRESSES REFORM MEASURES

HK090351 Kunming Yunnan Provincial Service in Mandarin 1100 GMT 8 Aug 85

[Excerpts] In his government work report at the third session of the Sixth Regional People's Congress, Governor Pu Chaozhu said: Carrying out various reforms in depth is the key to spurring economic and social development in Yunnan and consolidating and developing the excellent situation. This year the province must focus on reforms in four fields: in the economic structure; in the science and technology structure; in the education structure; and in speeding up the pace of opening up to the world.

On reforming the economic structure, Governor Pu said: This year we must score new achievements in invigorating large and medium enterprises, bringing into play the key role of cities, and readjusting the rural production structure. We must also take important strides in wage and price reforms.

He stressed: Invigorating the large and medium backbone enterprises is the cardinal link in reform of the urban economic structure. The large and medium enterprises in Yunnan are the dominant force in the development of social productive forces and in economic and technological progress. Further invigorating these enterprises is of great significance for the province's economic development.

Governor Pu also stressed: Vigorously developing horizontal economic ties is an effective way of running the enterprises well, improving social and economic results, and promoting the development of commodity economy. He said: We should encourage the enterprises to diffuse and radiate their strong points in capital, technology, equipment, talent, information, and so on into all production fields where society needs them, promote economic and technological cooperation in breadth and depth, organize economic combines spanning areas, departments, and trades, and gradually form a new criss cross economic network. On this basis we should establish a vertical management setup, and thus turn the province's economy into an organic entity with great vitality.

On bringing into play the key role of the cities, Pu Chaozhu stressed: the task of reform is to gradually turn the cities and towns in the province into open-style multifunctional socialized economic centers. In bringing their multifunctional role into play, we should open their gates wide, streamline the administration and delegate powers, and enliven circulation.

Governor Pu said: The price question is related to the vital interests of the masses and involves all departments of the national economy. In the course of reform, we will take an extremely cautious approach, provide very careful organizational guidance, and strive to maintain basic stability of the general price level. It is absolutely forbidden to seize the chance of reform to hike prices or raise prices in disguised fashion, thereby harming the interests of consumers.

On readjusting the rural production structure, Governor Pu stressed: We must uphold the principle of actively promoting diversification without the slightest slackening of grain production, and continue to get a good grasp of grain production. Since output of the spring-harvested crops this year showed a big decline due to natural disasters, we must take active steps to step up grain production. In launching diversification, we must simultaneously grasp large, medium, and small projects and improve quality and yields.

Governor Pu said: At present there are serious difficulties in buying and selling things in some minority-nationality areas and remote mountain regions. We must actively institute special treatment policies, vigorously develop collective and individual commerce, together with transport, sales, and other specialties, enliven folk transport, and thus stimulate the development of rural commodity economy.

On reforming the science and technology structure, Governor Pu Chaozhu said: To enable Yunnan's economy to take off and the people to get rich, we must be resolved to change the backward state of science and technology as quickly as possible. This is the common aspiration of the people of all nationalities in the province and is also a strategic task of the government at all levels. In conjunction with Yunnan realities, Governor Pu proposed in his report that the main ideas on reforming the science and technology structure in the province mean changing the lack of ties between scientific research and production, vigorously turning the fruits of technology into commodities, and attaching great importance to talent.

Governor Pu said: Yunnan has already set up technology markets in the cities of Kunming, Gejiu, Kaiyuan, Qujing, Yuxi, and Dali. Results have been very good. We should in future gradually expand them to other autonomous prefectures and counties, and, on this basis, set up regional science and technology service networks. The provincial authorities will set up a group for coordinating the technology markets, to be responsible for providing macro guidance and the necessary management over technological exchanges.

Governor Pu said: A very important reason why the level of productive forces and economic development in Yunnan is low and the people are not well-off despite the province's abundant natural resources is that education is backward and we lack talented people. The leaders at all levels and the masses have understood more and more clearly the importance of education in recent years, and have promoted the development of education in the province. However education in Yunnan is very far from meeting the needs of economic construction and development. We must further enhance our understanding from the plane of strategy, strengthen our sense of urgency, be far-sighted, and grasp education in the same way as we grasp economic work, striving to improve the quality of the nation and produce more and good talented people.

In accordance with the central decision on reform of the education structure and based on the province's realities, Governor Pu Chaozhu proposed a number of measures to be tackled by the province at present: 1) Grasp basic education. 2) Attach more importance to teacher training. 3) Develop vocational and technical education. 4) Reform and develop tertiary education.

Governor Pu said in his report: To strengthen leadership over the whole of education work in the province, it has been decided to abolish the provincial education department and set up a provincial education commission, so as to make all-round arrangements for education work in the province and arrange and guide reforms of the education structure, to help ensure that the province's education will flourish and develop still more healthily.

CSO: 4006/857-F

PROVINCIAL AFFAIRS

SHANXI VICE GOVERNOR ON ECONOMIC STRUCTURAL REFORM

HK081251 Taiyuan SHANXI RIBAO in Chinese 28 Jul 85 p 1

[Report by office no 1 of the general office of the provincial government: 'It Is Imperative to Do Well the Economic Structural Reform and Four Other Works -- Vice Governor Yan Wuhong analyses the economic situation in the first half of the year and sets forth main tasks for the second half of this year at a full meeting of the provincial government']

[Text] On 27 July, the provincial people's government called a full meeting to analyse the economic situation in the first half of this year and arrange for economic work in the second half of this year. While commenting on the economic situation in the first half of this year, Vice Governor Yan Wuhong said that generally speaking, the economic situation in the first half of the year in our province was excellent. The national economy throughout the province maintained a good tendency of sustained, stable and coordinated development. The macro-economy was preliminarily put under control and the runaway expansion of consumption funds and credit which rose at the end of last year was put under effective control. The markets were flourishing and active. The economic structural reform focusing on cities has scored initial results. There are some problems worthy of serious attention in the current economic work. First, economic returns of industrial production, in particular the economic returns of local state-run industries, are not ideal. Second, product quality has declined. Third, relations between market supply and demand are tense and the difference between social purchasing power and commodity availability is fairly large. The price index of consumer goods in the whole province has increased rapidly. If these problems are not promptly solved, it is bound to affect the healthy economic development of the province as a whole.

Vice Governor Yan Wuhong stressed that we should do work in the five aspects well in the second half of this year.

First, it is necessary to unflinchingly do economic structural reform well. He said that a leading comrade of the CPC Central Committee pointed out: Reform is the second revolution in China. This leading comrade recently also pointed out that carrying out the comprehensive reform of the economic structure is the overriding as well as most difficult task in China at present. We should earnestly master the essence of this extremely important guiding ideology of the leading comrade of the CPC Central Committee and truly place reform before



everything else. Leaders should devote their energies to the reform, and through reform push forward, promote and ensure the completion of economic work and tasks. The focal point of this year's reform work is to grasp well the implementation and carrying out of the "35 clauses" (namely, the working plan of the reform of the economic structure) formulated by the provincial CPC Committee and provincial government. The central task is to streamline administration and institute decentralization. Every economic department directly under the provincial government should take a good lead in doing this task. The main leading cadres should go down to the grass-roots units and help solve problems in individual enterprises and trades one by one.

Second, it is necessary to further straighten out the guiding ideology in economic work and uphold centering on increasing economic effectiveness in organizing production. The main reasons for the low social economic effectiveness in our province are: We produce more materials and semifinished products and less finished products; equipment is obsolete; the technology is backward; the application and popularization of new scientific and technological achievements are slow; and production remains at a low level. This results in many products being noncompetitiveness. From now on, first, we should actively readjust the industrial structure, so as to develop the finished processing of coal and other mineral products as well as the finished processing of farm and sideline products and increase the value and use of products. Second, we should pay attention to the enterprises themselves, so as to further improve their business management. We should not find excuses and shift difficulties onto the state and customers; instead we should strengthen various basic works, lower cost, reduce waste and increase enterprises' capacity for combatting the unfavorable objective factors by means of perfecting the economic system of contracted responsibility within enterprises. Third, every economic department directly under the provincial government should study and institute measures to make up deficit and loss and increase production and revenue, and reduce administrative expenses with a view to not exceeding the targets set by the state. It is necessary to conduct extensive cost and tax inspections in order to effectively check acts of squandering funds, recklessly apportioning costs and evading taxes.

Third, it is necessary to pay particular attention to product quality, so as to rapidly reverse the trend of quality decline and greatly increase product quality. Leaders of every government organization and department at all levels and every enterprise must firmly cultivate an attitude of "attaching primary importance to quality" and thoroughly check the erroneous tendency of one-sidedly pursuing output value, output and profit to the neglect of product quality.

Fourth, it is necessary to make the markets stable and flourishing and arrange well the masses' livelihood. Every economic department should be concerned with markets and support market prosperity and stability by way of their own work.

Fifth, it is necessary to invigorate credits and speed up capital turnover.

The meeting was attended by leading comrades of every department and bureau directly under the provincial government and every prefecture and city, and chaired by the provincial governor Wang Senhao.

CSO: 4006/857-F

PROVINCIAL AFFAIRS

YUNNAN MEETING DISCUSSES ECONOMIC QUESTIONS

HK030221 Kunming Yunnan Provincial Service in Mandarin 2300 GMT 2 Aug 85

[Excerpts] The provincial economic work forum, which concluded on 27 July, put forward the general demands on economic work in the second half of the year. These are: Strengthen macroeconomic control; ensure the deepening of reforms; and strive to fulfill the year's national economic plans. It is necessary to get a good grasp of five tasks:

1. Do a good job in agricultural production without missing the season. The general demand is to fight natural disasters, ensure good yields, and strive for a sustained rise in production and in the peasants' incomes. People should get rich through a 100 yuan increase, and efforts must be made to ensure that total grain output is not lower than last year. We must continue to readjust the rural production structure. Township and town enterprises should develop actively and steadily on a sound basis.
2. Do a good job in organizing industrial production centered on improving economic results. The province should increase output of products that sell well in the market, and of steel, pig iron, non-ferrous metals, and other raw material products. Production of export goods must be promoted, so as to make more foreign exchange for the state. The province must improve quality, reduce input costs, and ensure production safety.
3. Make proper arrangements for the urban and rural markets in the second half of the year. It is first necessary to control currency in circulation, and, second, strive to increase output of goods that sell well and meet market needs.
4. Do a good job in controlling capital in circulation, and also manage and use the existing capital well.
5. Control the size of investment in fixed assets and of investment in renovation and transformation projects, and ensure that the key projects are completed on schedule.

CSO: 4006/857-F

PROVINCIAL AFFAIRS

ZHEJIANG TO CONDUCT COMMODITY PRICE INSPECTION

OW090250 Hangzhou Zhejiang Provincial Service in Mandarin 1000 GMT 5 Aug 85

[Text] The Zhejiang Provincial People's Government stated in a recent circular that a general inspection of commodity prices would be conducted throughout the province. According to the circular, the scope of the inspection will cover all collective and individual retail and wholesale units in the commercial, transport, cultural, and medical departments, as well as all trade centers, service companies, and retail branches of enterprises whose commodity prices -- including floating prices -- difference in purchasing and marketing rates, rates of charges, and net profits for commodities or services are set by the state. The inspection will focus on prices of major industrial goods under the State Council, prices of major raw materials for the textile industry, and prices of essential staples for which people have many complaints, as well as the standards, services, and the rates charged in the food and service trades.

The circular urges governments at all levels to strengthen their leadership over the inspection, give full play to the role of the masses' price supervisory and inspection organs, and help all business units and the masses understand the significance of price reform and its relevant principles and policies; commend those units and individuals who have adhered to commodity price policies and discipline; seriously handle all problems, especially the major ones, that have been discovered during the inspection; reinforce the grass-roots supervision of commodity prices; improve the system of price control; and encourage the masses to contribute to supervising all types of business ethics.

CSO: 4006/857-F

PROVINCIAL AFFAIRS

HUBEI HOLDS MEETING OF FINANCE, TRADE DIRECTORS

HK080515 Wuhan Hubei Provincial Service in Mandarin 1100 GMT 6 Aug 85

[Text] The 5-day provincial meeting of finance and trade office directors from all prefectures, cities, and autonomous prefecture ended yesterday. Provincial Vice Governor Guo Zhenqian attended the meeting and delivered a speech. He expressed the hope that staffs and workers on the finance and trade front of the province will continuously sum up experiences, be bold in carrying out reforms and blazing new trails, and consolidate and develop the current excellent situation.

The meeting pointed out that since the beginning of this year, the province has fairly well fulfilled its tasks in finance and trade work in the process of reform. However, the tasks in the second half of this year will be very arduous. Comrades on the finance and trade front of the province must have a good spiritual status and have a serious work style. They must do their best to master dialectical materialism and skillfully solve various contradictions and handle various relationships. On using funds, they must adopt both restricting and releasing methods and avoid adopting purely restrictive policy.

In doing finance and trade work for the second half of this year, the provincial must first ensure funds needed in procurement of agricultural and sideline products in the autumn. People's banks must do well in using funds and properly control cash. If necessary, they should pay cash to peasants who sell agricultural and sideline products. If the peasants prefer a transfer of account, the banks should meet their desire. Banks are not allowed to strictly define proportions of cash payments and account transfers.

On the scale of investment of fixed assets, the meeting demanded that the province carry out projects which should be developed on the premise of not exceeding the scale.

On town and township enterprises, the meeting demanded that all finance and trade units should vigorously support the processing industry of agricultural and sideline products, the food industry, plastics industry, and tertiary industry.

The meeting also demanded that industrial and commercial banks do a good job in providing mobile funds to industrial and commercial enterprises, tap the potential of funds, and draw deposits to meet reasonable demand in industrial production and commodity circulation in the second half of this year.

CSO: 4006/857-F

PROVINCIAL AFFAIRS

PU CHAOZHU ON CAPITAL, RURAL PROBLEMS, OPENING UP

HK090249 KUNMING Yunnan Provincial Service in Mandarin 0400 GMT 8 Aug 85

[Text] Governor Pu Chaozhu said in his government work report: More than 7 months of this year have now passed. The main current of the province's economic development is good. The outstanding problems at present are: There has been too much currency in circulation since the fourth quarter of last year; and agriculture has been hit by frequent natural disasters.

Governor Pu said: The main reason for the excessive amount of circulation is that the scale of capital construction was too great, and growth of credit and consumption funds was excessive. Many enterprises and units randomly paid out bonuses, subsidies, and goods in kind, and whipped up unhealthy trends of lavish eating, drinking, and so on. He stressed: As a result of implementing the spirit of the National Conference of Governors, the situation has taken a turn for the better. However, the task of controlling currency in circulation in the second half of the year remains arduous. Hence, while continuing to control consumption and credit funds, we must be resolved to cut down the scale of capital construction and shorten the construction front.

On the natural disasters that have hit agriculture, Governor Pu said: The province was hit by drought and frost over wide areas last winter and spring. Over 8 million mu of spring-harvested crops were affected, resulting in a drop in grain production of about 700 million jin. Since May, more than 90 counties have been hit by floods, waterlogging, plant diseases, and insect pests, and nearly 7 million mu of spring-sown crops have been affected. In addition, the area of spring-sown grain is over 1 million mu less than last year.

He stressed: These things have caused difficulties to the effort to reap a bumper harvest, and especially to increase grain production, we must therefore attach a high degree of importance to them and mobilize the masses to reap a bumper harvest in the face of natural disasters. We must also vigorously promote diversification, and strive for a big increase of output in unaffected areas, increased output in areas lightly affected, and losses reduced to the minimum in severely affected areas. We should strive for a big increase in agricultural output value and the peasants' incomes.

Governor Pu Chaozhu said: The province has now initially changed its close-style economic setup. In the future we must speed up our efforts in opening up the

world. He said: In the wake of the continual development of the reform of the economic structure, the province has started to break down its closed-style economic setup which had formed over a long time and is making the transition to an open-style setup.

He said: In 1984 the province signed 77 importation contracts, worth \$94 million with foreign countries and the Hong Kong and Macao regions. We launched barter trade with Eastern European countries, and have carried out reforms in trade management. Horizontal ties between Yunnan and other provinces and within Yunnan have also been strengthened. Opening up to the world has effectively promoted the economic development of the whole province.

Pu Chaozhu stressed: Opening up to the world is a long-term basic policy for our country. It is also a major strategic measure for speeding up modernization. We must open our gates wide, simultaneously promote the work of opening up to the rest of China and to the outside world, and organize this work through many channels, at many levels, and in many forms. We must strive to take still greater strides in opening up to the world.

CSO: 4006/857-F

ECONOMIC DEVELOPMENT ZONES

DALIAN MAYOR DETAILS FOREIGN COOPERATION

OW271744 Beijing XINHUA in English 1451 GMT 27 Jul 85

[Text] Dalian, July 27 (XINHUA)--Dalian, in Liaoning province, one of China's 14 open coastal cities, has geared up economic and technical cooperation with foreign firms, Wei Fuhai, mayor of the city told Xinhua today.

The city clinched a deal of 188 items of technology to be imported with 116,890,000 U.S. dollars-worth of foreign funds in the first six months of this year, a big increase over last year.

The number of foreign business people visiting Dalian has increased monthly, the mayor said.

Altogether, 4,000 business people from 34 countries and regions visited the city in the first half of this year, and 176 delegations have been sent to 26 countries to make inspection tours and hold trade talks. In addition, 34 foreign companies have set up their resident offices in the city.

The mayor stressed that the preferential policies for foreign economic and technical cooperation applied to the open coastal cities remain unchanged.

Dalian is trying to earn more foreign exchange by exporting more products to import advanced technology with which it can upgrade its old enterprises.

It will continue to allow foreign business people to open enterprises and establish Dalian-foreign joint ventures and cooperative enterprises in the city, Wei said.

The Dalian economic and technological development zone is able to provide levelled land for building 100 factories, each occupying 5,000 square meters. Some 5,000 constructors are still working on the zone.

A large deep-water port with 100 berths, which can handle four million to 10 million tons of cargo a year, will soon go into service.

Other projects under construction in the zone include a coal terminal with annual handling capacity of five million tons, an international airport for large aircraft, and an expressway linking the economic zone with Shenyang, capital of Liaoning province.

ECONOMIC DEVELOPMENT ZONES

TIANJIN ECONOMIC ZONE ATTRACTS FOREIGN INVESTORS

OW040222 Beijing XINHUA in English 0202 MGT 4 Aug 85

[Text] Tianjin, 4 August (XINHUA)--Fast infrastructure construction in the economic and technological development zone of Tianjin has aroused the interest of foreign investors.

So far, eight joint-venture contracts with Hong Kong and foreign business people have been signed and negotiations on other projects are well under way, a zone official told XINHUA today.

Tianjin is a major Chinese port and one of the 14 coastal cities further opened to foreign investment last year.

Four joint ventures which have been approved by the Chinese Government are the Dan Hua Enterprise Co Ltd between Tianjin and Denmark to produce portable bicycles, China Tsic Nkk [as received] Offshore Engineering and Services Co Ltd between Tianjin and Japan, the Tianjin-Hong Kong Jia Tai Ceramic Industrial Co Ltd to produce and sell high-grade glazed tiles, and the Rong Fa Taxi Co Ltd between Tianjin and Japan. Covering an area of 33 sq km, the economic and technological development zone began construction last December near the Tianjin new harbor.

Up to now, three sq km of the area in the first construction phase have been levelled for erecting storage facilities and factories, major highways built, and 34-km water pipes to divert water from the Luanhe River to the zone and sewage pipes laid, the official said.

Still under construction are gas pipes, a transformer substation and communications cables.

The official said the zone plans to construct a 45,000-square-meter service center and a management center building to accommodate the zone management committee, the development zone corporation and their branch companies, a post office, and a customs and commodity inspection and testing department.

CSO: 4020/318



ECONOMIC PLANNING

BRIEFS

URBAN ECONOMIC REFORM DISCUSSED -- A provincial conference on reform of the urban economic structure, convened by the provincial government, was held in Chengdu from 26 July to 1 August. Governor Jiang Minkuan spoke at the opening of the meeting on the guiding idea for this reform. Vice Governor Gu Jinchi spoke on the situation in this reform and the future tasks of reform. The meeting held: Reform in the province's urban economic structure, which started early, has made notable progress in the past 6 and more years. In particular, marked breakthroughs have been made in many aspects since last year. A situation of unprecedented liveliness has appeared in the urban economy. The meeting studied and made arrangements for reform work in the second half of this year: 1) In accordance with unified central arrangements, make comprehensive use of economic levers to promote the wages and prices reforms. 2) Promote reforms within the enterprises, perfect the economic responsibility systems, speed up the diffusion of product manufacture and technology, develop horizontal ties, and promote coordination between specialized departments, to improve economic results. 3) Further perfect and strengthen management of trades and sectors, draw up development plans, study measures for arranging the productive forces, formulate policies for technological transformation of different trades and sectors, and provide good services for the enterprises. 4) Develop a variety of markets and bring into play the multifunctional role of the cities. [Excerpts] [Chengdu Sichuan Provincial Service in Mandarin 0030 GMT 3 Aug 85 HK]

CSO: 4006/857-F

JPRS-CEA-85-080  
3 September 1985

AGGREGATE ECONOMIC DATA

BRIEFS

LIAONING TAX REVENUE -- Liaoning Province has fulfilled its semiannual industrial and commercial tax revenue plan, fulfilling the annual plan by 56.5 percent and showing an increase of 24.9 percent over the corresponding 1984 period. [Summary]  
[Shenyang Liaoning Provincial Service in Mandarin 1030 GMT 9 Jul 85 SK]

CSO: 4006/857-F

FINANCE AND BANKING

BRIEFS

HARD CURRENCY BANK SAVINGS INCREASE IN JIANGSU -- Nanjing, 3 August (XINHUA)--Hard currency bank savings have risen by 87 percent to a value of 1,138,000 U.S. dollars in Jiangsu Province this year, a local Bank of China official said here today. The money is being saved by 2,766 residents who have sources of hard currency income--more than double the figure for the end of 1984. The Bank of China, which specializes in foreign currency dealings, has a branch in Nanjing and sub-branches in Nanjing, Suzhou, Wuxi, Changzhou, Lianyungang, Zhenjiang, Xuzhou and Yangzhou. All handle hard currency savings. The official attributed the increase in savings to the April interest-rate increase and the introduction of a system enabling depositors to withdraw money at any time. Nanjing is one of 10 cities trying out this new system. [Text] [Beijing XINHUA in English 1240 GMT 3 Aug 85 OW]

CSO: 4020/319

MINERAL RESOURCES

BRIEFS

NEW XINJIANG GOLD MINE -- Urumqi, 17 July (XINHUA)--A medium-sized gold mine is being developed in the eastern part of the Tianshan Mountains in the Xinjiang Uygur Autonomous Region, according to the region's nonferrous geological prospecting company today. The mine will cover a surface of 7,000 square km and every ton of ore is expected to contain an average of 10 grams of gold. The first shaft has been sunk more than 90 meters and the first level has been pushed 1,000 meters. A small dressing plant has gone into experimental operation. Work is at present proceeding on 46 locations where gold deposits have been proved. [Text] [Beijing XINHUA in English 0841 GMT 17 Jul OW]

LARGE GYPSUM DEPOSIT IN HENAN -- Zhengzhou, 26 July (XINHUA)--A deposit of gypsum estimated at more than 300 million tons has been discovered in southern Henan Province, according to local geologists. The deposit should help ease the shortages of gypsum in Henan, which imports about 100,000 tons a year from other provinces, they said. Gypsum is an important raw material in the production of cement, ceramics and building materials. [Text] [Beijing XINHUA in English 0204 GMT 26 Jul OW]

TIANJIN CLAY DEPOSIT FOUND -- Tianjin, 26 July (XINHUA)--A major discovery of illite clay will turn a county near Beijing into a major center for purple-sand potteryware, a leading geologist said here today. A deposit of two billion tons of the valuable clay has been found in Jixian County, under the administration of Tianjin Municipality, according to Li Shiwei, senior engineer of the Tianjin Municipal Bureau of Geology and Mineral Resources. The county, 90 kilometers east of Beijing, could now become the second-biggest center for purple-sand potteryware after Yixing Town in Jiangsu Province. Tianjin authorities have already invited a Hong Kong firm to join in a business making floor tiles from the Jixian clay. [Text] [Beijing XINHUA in English 0205 GMT 26 Jul OW]

HUNAN FERROALLOY PRODUCTION -- Through tapping potential and technological transformation in the first half of this year, Hunan Province increased its ferroalloy productive capacity by 7,000 tons. Output of the small ferroalloy plants in the whole province in the first half of this year reached 8,600 tons and was some 200 percent more than in the same period last year. [Summary] [Changsha Hunan Provincial Service in Mandarin 1100 GMT 5 Aug 85 HK]

CSO: 4006-857

INDUSTRY

BEIJING OUTPUT OF INDUSTRIAL PRODUCTS INCREASES

SK080458 Beijing BEIJING RIBAO in Chinese 24 Jul 85 p 1

[Excerpts] In the spirit of grasping tangible economic results, the municipal industrial departments have readjusted the structure of products and adopted measures to speed up the production of products in short supply. In the first half of this year we saw a sustained, coordinated, and steady development in industrial production.

Compared to the corresponding period of last year, the industrial sector increased profits and taxes by 25 percent, and labor productivity by 18 percent. All increases exceeded the growth of the total industrial output value.

Since the beginning of this year, the municipal Economic Commission and other departments, in view of market demands and changes and social needs, have adopted effective measures to speed up the production of products in short supply and exerted efforts to raise the social economic results.

In the first half of this year, the increase in the production of products in short supply brought the municipal industrial enterprises an extra output value of 1.05 billion yuan, which accounted for some 47 percent of the municipality's total amount of the increased industrial output value.

Meanwhile, in order to solve the problem of raw materials supplies for the production of products in short supply, the industrial departments have sped up the production of basic raw materials. In the second quarter of this year, the production of rolled steel of the Shoudu Iron and Steel Company increased by 14 percent over the corresponding period of last year, and by 2.8 percent over the first quarter of this year. In the first 6 months the production of some energy products, including marketable fuel oil and liquified petroleum gas, increased by some 10 percent.

The readjustment of product structures has enabled the industrial structure of the municipality to develop coordinately. The gap between the development of the processing industry and the raw materials industry has narrowed and economic results have steadily increased. In the first half of this year, the state enterprises of 16 industrial general companies increased profits and taxes by 25 percent, and labor productivity by 18 percent over the corresponding period of last year, all exceeding the growth of the total industrial output value.

## INDUSTRY

### BRIEFS

LIAONING INDUSTRIAL OUTPUT -- According to statistics, as of 30 June, Liaoning Province's industrial output value reached 32,217 mill yuan, an increase of 15.1 percent over the corresponding 1984 period and overfulfilling the semiannual output plan. [Summary] [Shenyang Liaoning Provincial Service in Mandarin 1030 5 Jul 85 SK]

XINJIANG INCREASES INDUSTRIAL OUTPUT -- From January to July, the region's industrial output continued to grow steadily. In July, its gross industrial output value again exceeded the 600 million yuan level, totaling 601 million yuan and breaking the past few years' record for the same period. From January to July, the region's gross industrial output value was more than 3.9 billion yuan, or increased by more than 25 percent compared with the same period last year, and the region accomplished 61.23 percent of this year's target. The output value of light industry was 1,796 million yuan; whereas the output value of heavy industry was 2,123 million yuan. This showed an increase of 28.47 and 23.43 percent respectively compared with the same period last year. [Summary] [Urumqi Xinjiang Regional Service in Mandarin 1300 GMT 6 Aug 85 HK]

CSO: 4006/857

FOREIGN TRADE AND INVESTMENT

BEIJING REVIEWS SINO-U.S. ECONOMIC, TRADE TIES

OW261015 Beijing in English to East and South Africa 1700 GMT 24 Jul 85

[Yue Dong commentary]

[Text] President Li Xiannian's current visit to the United States has included the signing of several new agreements. These cover cooperation in the peaceful use of nuclear energy, cultural and educational exchanges, and fishery. Here is (Yue Dong) with more on economic and trade relations between China and the United States:

Premier Zhao Ziyang once said that the United States is the strongest economically and technically developed country, while China is the biggest developing country. There is a great potential for the development of trade between these two giants.

The agreements on industrial and technical cooperation and other matters are already being implemented. Direct investment in China by American companies had reached \$1 billion by the end of 1984. The number of joint ventures with American partners increased from 21 in 1983 to 62 in 1984. The trade volume last year hit a record high of \$6.1 billion, a 39 percent increase over 1983. American statistics predict the volume this year will top \$7 billion.

Officials from both countries hold frequent discussions on the problems with laws governing economic and trade relations. The Chinese government is busily drafting new economic legislation to implement the policy of opening to the outside world. There are now more than 40 new economic laws on the book. New ones are being drafted to cover joint ventures, foreign trade, enterprises with only foreign capital, and customs. There are also bilateral and multilateral agreements on safeguarding investment and avoiding double taxation. These all create favorable conditions for the development of China's economic and trade relations with other countries, including the United States.

We are glad to see that President Ronald Reagan and other farsighted Americans are making a serious effort to develop American economic cooperation with China. The United States is easing its restrictions on

exporting technology to China, and is shortening the time needed to examine and approve licenses with its export. Still, there remain quite a lot of obstacles. Some are contained in American legislation, which is out of date, and some have just emerged.

Of all developed countries, only the United States does not give China consistently favorable treatment and opposes China's membership in the General Agreement on Tariffs and Trade. Last year's total import volume into the United States reached \$300 billion. China's share of this was \$2.3 billion. This shows the great potential for more trade between the two countries. But the United States has recently tried to restrict China's access to the American market. One example is the limitation of China's textile export to the United States.

The U.S. Congress is now discussing a plan that could mean a 56-percent cut of China's textile export to the United States, if it is implemented. This would mean China would suffer a great loss in foreign exchange earnings and would severely harm the trade relations between the two countries.

We earnestly hope the U.S. Government and people from various circles will recognize the need to amend or abandon legislation which hinders the development of healthy trade relations.

CSO: 4020/317



FOREIGN TRADE AND INVESTMENT

U.S. EXPERTS AID XINJIANG OIL PROSPECTING

OW231115 Beijing XINHUA in English 1036 GMT 23 Jul 85

[Text] Urumqi, 23 Jul (XINHUA)--Chinese and American seismic experts have been prospecting for oil in China's largest desert, in the Xinjiang Uygur Autonomous Region, for the past 2 years.

Equipped with modern facilities, the experts and technicians have crisscrossed the Taklimakan desert 11 times from north to south and three times from east to west. They have brought to light the underground profile of the desert by completing seismic prospecting and gravity measurements over an area of 5,000 square kilometers.

Located in the center of the Tarim Basin, the desert covers an area of about 350,000 square kilometers. The temperature here is over 70 degrees centigrade in summer and 35 degrees centigrade below zero in winter.

Wu Quncang, head of the office of the Sino-American team, told XINHUA that, with the help of the American experts, the general geological structure and resources of the desert will be revealed next year when the three seismic teams complete the 7,000 square kilometer seismic profile next year.

The two American teams, from the Geophysical Services Corporation, came to work in the desert along with a Chinese seismic team in June 1983 on contract.

"Participation of foreign experts in oil prospecting in the desert is conducive to China's modernization drive," Wu Quncang said.

Geological surveys have been going on around the desert for years, and 170 oil-bearing structures, 100 oil and gas showings, and two oil and gas fields have been found on the fringes of the desert. Yet the total geological structure and oil resources of the whole basin remained little known.

CSO: 4020/318

FOREIGN TRADE AND INVESTMENT

CHINA ENCOURAGING JOINT EXPLORATION FOR OIL

OW210734 Beijing XINHUA in English 0659 GMT 21 Jul 85

[Text] Beijing, 21 Jul (XINHUA)--The Chinese government has decided to cooperate with foreign firms in exploring and developing land petroleum resources in 10 provinces, the overseas edition of PEOPLE'S DAILY, reported today. They are Yunnan, Guizhou, Guangxi, Jiangsu, Zhejiang, Anhui, Hunan, Jiangxi, Fujian, and Guangdong, covering 1.8 million square kilometers.

Though these areas remain virtually untouched, the parer quoted general manager of the China Oil Development Corporation Song Zhenming as saying: "There are some indications of gas and oil flow in northern Jiangsu, Baise in Guangxi, and Sanshui in Guangzhou. Areas worth exploring are estimated at about 1 million square kilometers."

Song disclosed that 23 oil companies from eight countries have bought related data. Two U.S. companies have got the approval to carry out exploration around Dongting Lake in Hunan Province and Boyang Lake in Jiangxi.

Much has been done to explore for oil in northwest China and oil flows have been discovered in a number of basins. Work will be stepped up there and more foreign firms are welcome to cooperate, Song was quoted as saying.

He said that China has invited 19 oil companies from the United States, Britain, France, Italy, Japan, Federal Germany, The Netherlands, and Romania to make surveys and exploration of oil resources in Xinjiang, Qinghai, Shaanxi, Gansu, Ningxia, and Sichuan.

Recently, ESSO, Shell, and Chevron have decided to join hands in exploring land oil in China and field study is expected to begin September.

Song Zhenming said China's crude oil output this year may reach 125 million tons (875 million bbl) and by 1990 the country expects to produce more than 150 million tons (1,050 million bbl).

FOREIGN TRADE AND INVESTMENT

HEBEI IMPORTS MORE FOREIGN FUNDS, TECHNOLOGY

OW310836 Beijing XINHUA in English 0747 GMT 31 Jul 85

[Text] Shijiazhuang, 31 Jul (XINHUA)--Hebei Province has signed 40 contracts and 60 agreements and letters of intent to import foreign funds and technology.

Song Shuhua, head of the delegation to recent seminars on international economic and technical cooperation, told XINHUA today that the contracts involve more than 30 million U.S. dollars. The agreements and letters of intent exceed 80 million U.S. dollars

The province also signed 25.8 million U.S. dollars-worth of contracts to export 43 varieties of goods.

The two seminars, held in Hong Kong and Shenzhen simultaneously from July 22 to 27, were attended by 1,520 business people from 14 countries and regions. Discussed were 104 items for international economic and technical cooperation.

The cooperation projects involve textiles, building materials, pharmaceuticals, light industry, foodstuffs, chemicals, machinery and metallurgy. Most involve technical transformation of present enterprises.

Song said negotiations are still going on and more contracts are anticipated at a similar seminar to be held in Shijiazhuang, capital of Hebei Province, in September.

CSO: 4020/318

FOREIGN TRADE AND INVESTMENT

COLLECTIVES, INDIVIDUALS FUND BEIDAIHE FACILITIES

OWO22219 Beijing XINHUA in English 1640 GMT 2 Aug 85

[Text] Qinhuangdao, 2 August (XINHUA)--Facilities have been improved at the Hebei Province seaside resort of Beidaihe, a tourism official said here today.

A major reason for this is because collective and individual investors have been encouraged to join the state in running tourist facilities, he said.

This summer, the number of tourists is about 1.5 times higher than last summer, but the pressure on accommodation has been less than in previous years.

The zone now has 163 restaurants and food stands, double last year's figure. More than 20 restaurants are serving traditional local dishes and favorites from other parts of China. Snack bars and stalls, operated jointly by the resort and outsiders, serve meals to 5,000 people every day.

About 60,000 ice creams, 50,000 bottles of soft drinks and 6,000 litres of beer are sold a day.

There are 760 hotels with 45,000 beds. The number of privately-run hotels has doubled from last year to 590.

Four new bus routes have opened this year, including an inner circular service passing the beach.

Seven car parks opened this year can accommodate 600 cars. About 2,200 cars enter and leave the resort each day.

There are 24 pleasure cruisers and many public places of entertainment, including clubs, a sea sports ground and exhibition halls. Artistic performances and dances are held every day, the official added.

CSO: 4020/318

FOREIGN TRADE AND INVESTMENT

SHENYANG PLANS CONSTRUCTION OF TRADE CENTERS

OW250800 Beijing XINHUA in English 0634 GMT 25 Jul 85

[Text] Shenyang, 25 Jul (XINHUA)--Shenyang, one of China's heavy industrial bases, plans to construct trade centers, a large airport, telecommunications facilities and other projects so as to provide a more favorable environment for overseas investors, Vice-Mayor Li Zhonglu disclosed here today.

The state council granted the city, which has a population of 2.8 million, provincial-level authority in handling economic affairs last year.

It has started construction of a 22-story building with a total floor space of 30,000 square meters. The project involves Hong Kong investment and will be a commercial and service center, including a bazaar, a ballroom, an amusement hall, a bar, restaurants and conference halls. It will be completed in 1987.

The city also plans to set up an international trade center and a commercial center in cooperation with foreign firms, the Vice-Mayor said.

An airport capable of accommodating Boeing 747s, is on the drawing board. The project, involving an investment of 400 million yuan (143 million U.S. dollars), will go into operation as an international terminal in 1988.

Shenyang started to install a telephone network in May with 35,000 lines and program-control facilities to be imported from Belgium and Yugoslavia. The project is expected to be completed by 1987.

To alleviate the strain on the existing railway station, construction of a larger station is under preparation, Vice-Mayor Li added. The new station will include waiting rooms with a floor space of 20,000 square meters, six platforms and three tunnels.

The existing station, one of the busiest in China, handles 148 passenger trains with a volume of 74,000 passengers every day.

Li Zhonglu said that Shenyang will also widen its old streets and roads, build overpasses and highway bridges, construct waterworks and gas storage facilities, and put 150 more buses into service.

CSO: 4020/318

FOREIGN TRADE AND INVESTMENT

REPORT ON 'INTERNATIONAL TRADE ENGINEERING MEETING

Beijing GUOJI MAOYI [INTERTRADE] in Chinese No 5, 27 May 85 pp 41-42

[Article: "International Trade Engineering Meeting Held in Beijing"]

[Text] The Chinese International Trade Institute held a meeting on International Trade Engineering from 1 to 6 March. Over 60 economic and trade workers, theoretical workers and teaching staff from economic and trade departments, scientific research units, universities and colleges in all parts of the country participated. The meeting was held to correspond to the fine situation of China's continuing effort to open to outside countries and quadruple foreign trade by the end of this century. As those at the meeting confronted this new task of international trade engineering, they displayed a democratic spirit. Those who were knowledgeable taught others and everyone spoke their minds freely. Numerous young comrades expressed their own views and presented some rather insightful ideas.

The well-known scientist Comrade Qian Xuesen [6929 1331 2773] presented a report at the meeting on the application of systems engineering in international trade. He pointed out that foreign trade has already become a vital link in China's economic construction. Closing the country to trade would make it difficult to implement the four modernizations. Nevertheless, foreign trade is not a simple matter, its complexity far exceeds the complexity of launching a communications satellite into a predetermined orbit. One may say that foreign trade is not merely trade but rather an entity consisting of five parts--trade, science and technology, talented persons, politics and foreign relations. In capitalist countries some people regard trade as commercial war. This is not an exaggeration. Qian Xuesen said that since foreign trade is so complex, can we come up with an even more effective means to deal with it? There is such a means, that is, to introduce systems engineering to foreign trade. We already have the necessary conditions: there are large number of experienced economists and international trade specialists; there are quite detailed statistical data; and there are personnel and the means to do work on systems engineering. If we combine these three with successful experiences in cooperation in the economic sphere and, with the positive cooperation of each area, we may make further progress in the management of foreign trade. We must continue to sum up experiences in actual practice, draw lessons from experience, devise new means and blaze new trails. We will then be able to break a new Chinese socialist path in foreign trade.

In connection with Comrade Qian Xuesen's talk, the meeting focused on and discussed the following several matters:

#### I. The Necessity of Establishing Chinese International Trade Systems Engineering

International trade systems engineering (or Chinese foreign trade systems engineering) is a new discipline. This discipline, on the basis of integrating theories of international trade, international finance, pricing, marketing, Chinese socialist foreign trade, etc. applies current methods of systems engineering to solve problems in the control, policies and practice of China's socialist foreign trade. Compared to China's traditional control of foreign trade, it is far superior. It can make up for the lack of integrated analysis and thought, quantitative analysis and modern management techniques in traditional management. Even more important is the fact that the use of systems engineering methods in management may improve macroscopic control and regulation in China's foreign trade work. In view of this point, participants all felt that it is essential to establish Chinese foreign trade engineering. This also corresponds to China's further implementation of the policy to open to outside countries and to the objective requirement of accelerating modernized construction.

The reform of China's foreign trade system has been going on for several years and some successes have been achieved. However, numerous problems still exist, the most important of which is the lack of macroscopic policies and proposals and the lack of overall planning. Overall arrangements and comprehensive solutions must not only be based on the internal structure of the foreign trade system, they also require that we clarify the relationship between foreign trade sectors and the other various sectors of the national economy, in particular the position and function of foreign trade in the overall national economy, not only in terms of quality but in terms of quantity as well. Not only must we clarify the vertical relationship but also the horizontal relationship. To do this we will have to draw on international trade engineering.

When discussing the relationship between China's foreign trade and the world market, delegates at the meeting felt that it is necessary to develop China's foreign trade based on the capacity of the world market and trends of development and change. This will not only require accurate analyses and forecasts of world economic conditions and the world market, it will also require accurate analyses of the economic and trade conditions of each country and region and the changing trends of supply, demand, pricing and varieties of commodities. Accordingly, we must formulate specific foreign trade measures geared to actual development based on our practical circumstances. To do this, it is necessary to establish and develop international trade systems engineering.

In foreign economic and trade activities there exist superior to subordinate relations such as central government to local government, economic and trade departments and main offices to branch and sub-branch offices. There

also exist horizontal ties between companies, ports and regions and ties between foreign trade departments and other departments. At the same time there are also some interesting relationships between commodities, communication, transportation and personnel and proportionate relationships between imports and exports, production and selling, etc. To correctly deal with these relationships, it is necessary to establish Chinese international trade systems engineering.

## II. Concerning the Name, Definition and Scope of This New Discipline

Some comrades think that the name of this discipline "international trade engineering" is not appropriate, that it should be called "Chinese socialist foreign trade systems engineering." Their reasons are as follows. First, this discipline studies China's foreign trade. The term international trade seems too broad and too abstract. Second, if we call this discipline engineering, it will be easily confused with the hard sciences of civil engineering, water irrigation engineering, etc.; whereas foreign trade systems engineering is a soft science. "Soft" and "hard" sciences differ in their products. The products of "soft" science are abstract, i.e., judgments and policies, whereas the products of "hard" science are material. Third, the wording of "Chinese socialist foreign trade systems engineering" can better reflect the nature of the object of study.

Other comrades feel that there are both connections and differences between international trade engineering and Chinese socialist systems engineering. In the former we systematically observe international trade and Chinese foreign trade activities from a macroscopic and theoretical point of view while in the latter we must introduce the methods of systems engineering.

The scope of this discipline was one of the central issues discussed at the meeting. Some comrades felt that while establishing this engineering system, not only is it necessary to include foreign trade sectors, it is also necessary to include production sectors that are directly concerned with import and export. The basis for this is that according to the tenets of Marxist reproduction, production, circulation and consumption form an inseparable and organic whole. Moreover, production and consumption are the only aspects directly connected with foreign trade. Some comrades disagree with this view and believe that when establishing a foreign trade engineering system we should not include aspects of production and consumption, because after production has developed to a certain stage, trade becomes divorced from production and consumption and it functions independently. Foreign trade itself refers to circulation. Therefore when establishing this system there must be clear demarcations; it includes only circulation and should exclude production and consumption. There are also those who think that we can establish various kinds of systems based upon different points of view, the scope of each system would vary, and it would be primarily determined by the objective.



### III. How To Establish International Trade Engineering or Chinese Socialist Foreign Trade Systems Engineering in Our Country

Comrades attending the meeting felt that in order to establish this new discipline it is necessary to keep the general goal in sight and take the daily tasks in hand. We must first carry out tests concerning certain specific questions in China's import and export trade and, on the basis of positive results, gradually extend this to the whole foreign trade system. There are also comrades who think that present conditions are not yet ripe for Chinese foreign trade engineering. They believe that it is more appropriate to adopt traditional theories and methods to control foreign trade.

Participants also expressed differing opinions on the question of classifying the internal system of this discipline. Some comrades advocated a five-system theory, that is, the dynamic system, the management system, the transmission system, the information system, and the economic benefit system of foreign trade. Other comrades advocate three systems: the policy system, consisting of state macroscopic policies and microscopic policies of foreign trade enterprises; the operations system, consisting of main offices, branches and sub-branches of import-export companies; and the comprehensive service system, including agencies and economic organizations that serve import-export operations such as customs, commodity inspection offices, banks, warehouses, transportation sectors, advertising sectors, information sectors, production development sectors, harbors, ports and other establishments.

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CSO: 4006/754

## FOREIGN TRADE AND INVESTMENT

### STRATEGIES, MEASURES FOR INCREASING HENAN'S EXPORTS

Beijing GUOJI MAOYI [INTERTRADE] in Chinese No 5, 27 May 85 pp 43-45

[Article by Li Zunrong [2621 1415 2837]: "A Preliminary Look at Henan's Export Commodity Market Strategies"]

[Text] The number of countries and regions to which Henan exports goods has increased from 21 in 1975 to 104 at the present time. Goods are now exported to Latin America, North America and Oceania in addition to Europe and Asia. There are 854 exporters, 132 importers and a total of 890 exported commodities.

In the Henan export market there exist serious imbalances involving "proximity," "narrowness" and "smallness." Proximity refers to excessive reliance on Hong Kong and Macao; narrowness refers to the concentration of Henan's export market in Europe and Asia and a few other countries and regions; and smallness refers to the low proportion of Henan export trade in various markets and to the fact that their customers are primarily medium or small companies including numerous fly-by-night businessman that engage in speculation. This kind of situation is extremely disadvantageous to expanding Henan's export trade. To alter this situation, it is imperative to formulate strategies and measures for the export market. In the broad view of development trends in the world economy, strategies and measures for Henan's export market should be to continue to consolidate the Hong Kong and Southeast Asian market to further expand trade with Japan, the United States and Western Europe to actively develop the Third World market and to strive to restore and develop trade with the USSR and East Europe so as to enlarge the export market.

First, we must continue to consolidate the Hong Kong and Southeast Asian market. Henan has 619 clients in Hong Kong and the Southeast Asian region and these exports constitute 58.9 percent of Henan's total volume of exports. This shows that Henan has already established a firm foundation in these two markets. However, we must continue to consolidate this foundation, and this will pose some difficulties. Trade competition in Hong Kong is fierce. For this reason, it is necessary to fully utilize Henan's traditional commodities and name-brand goods to consolidate and expand the Hong Kong market and then proceed to expand the Southeast Asia market. For instance, the export of Henan's cereal, oil and food products is primarily concentrated

in the Hong Kong and Macao market. The export of live hogs amounts to approximately \$40 to \$50 million per year. However, the competition with domestic ports in exporting live hogs to Hong Kong is intense and this has had a great impact on Henan. The governments of Singapore and Malaysia have just adopted measures to reduce animal breeding and expand imports of livestock so that Henan may take advantage of this opportunity to export live hogs and cattle to Singapore, Malaysia and even Japan. Also, we must do our utmost to reduce entrepot trade through Hong Kong to avoid the tremendous losses caused by excessively low selling prices in Hong Kong and the large scale devaluation of the Hong Kong dollar. We must prevent an assault on our direct export trade with other countries.

Second, we must further expand trade with Japan, the United States and Western Europe. Henan's volume of trade with these three markets is increasing year by year. In 1983 it constituted 25.37 percent of Henan's total volume of trade. However, this is still lower than the national proportion of exports with the abovementioned three markets. Consequently there is still great potential for exporting to Japan and the United States. We must fully utilize the favorable terms of the friendly state-province relationship established between Kansas and Henan. We must infiltrate, capture and expand our export market with the United States and then proceed to develop the Canadian market so that the export volume between Henan and the United States and Canada increases from 3.5 percent to 11 percent of the total export volume of Henan. The volume of Henan's exports to the West European market constitutes 11.1 percent of the total volume of exports yet the absolute export volume is still quite low. Consequently there is still room to expand Henan's exports to Western Europe.

Third, we must actively develop the Third World market. The combined export volume to the eight Middle East oil producing nations constitutes 1.23 percent of our total volume of exports and .002 percent of the total volume of imports of that region. There is only a small amount of retail trade with other developing countries and there are even a number of markets that are "empty." We must develop trade with these countries and regions as rapidly as possible and open up and expand exports to these markets. We should particularly emphasize developing foreign exchange trade with OPEC.

We can also use our commodities in exchange for oil and transfer them through other countries so as to expand our exports. In September 1982 Henan's comprehensive trade group went to Kuwait to carry out field inspections. They discovered that there was a demand on the Kuwait market for 5 million live sheep per year. Henan has a large number of long-tail sheep of fine quality which can meet the demand of the Kuwait market. After much work, we signed a long-term contract with Kuwait to export nearly 500,000 sheep. Between May of last year and March of this year, Henan exported over 50,000 sheep to Kuwait in exchange for over \$3 million. This demonstrates that by directing our attention to the superiority of Henan's natural resources, determining the supply and demand trends in Third World markets and adopting positive measures, it is entirely possible to infiltrate and develop these markets within a short period of time.

Fourth, we must strive to restore and develop trade with the USSR and East European countries. The USSR and Eastern Europe were our earliest direct export market. At present Henan's exports to the USSR and the six East European countries constitute 4 percent of our total volume of exports. The potential of this market is great. There are great prospects for our export commodities in these countries and our province needs some of their technology, equipment and materials for the establishment of the four modernizations. We should rapidly restore and develop trade with the USSR and East European countries and gradually increase exports until they constitute 15 percent of our export trade.

In addition to doing work in the aforementioned four areas, we should also deal with the relationship between imports and exports. This is an effective measure for dealing with trade protectionism now in effect in the current international market. If we integrate imports and exports, use imports to promote exports and use exports to promote imports, it will be very advantageous to increasing commodity exports and expanding new markets.

We must determine our strategic goals followed by strong effective measures, otherwise we will fail to attain our goals. The measures to be implemented are:

1. Improve investigations and studies of the international commodity market and provide policy information in order to implement commodity market strategies and measures. We should establish a provincial network on economic and trade market conditions and then extend it to the whole country and the world. We must establish a provincial foreign economic relations and trade information center, set up and assign full-time or part-time personnel familiar with market conditions to be in charge of gathering, processing and transmitting information in all import-export branch offices in the province and even in local, municipal, prefecture and foreign offices. They must also provide timely information to leadership at all levels and foreign trade specialized companies and production enterprises. They can play a consulting role in terms of policy decisions. In the course of promoting the sale of commodities, it is even more necessary to emphasize investigation and study. Before export transactions are concluded, we must first investigate market supply and demand trends, customer credit information and prices of similar kinds of products. Once goods have entered the market, it is necessary to continue to be familiar with changes in the market, to deliberately readjust the export commodity mix, to improve packaging, to develop name brand goods and to change clients in line with local conditions. Then all foreign trade investigation groups, exhibitions and marketing agencies that go abroad must finalize transactions, carry out comprehensive investigations of markets, write investigation reports and send them to the appropriate departments to be used to guide work.

2. Increase the number of agencies abroad so that they can fan out and manage and open up export markets. For many years Henan's export transactions have relied primarily on trade fairs, correspondence and invitations to clients. Basically, we have "called on the customer." It is reported

that numerous provinces, cities and autonomous regions have been increasing the number of foreign trade offices, some already have ten or more. Henan currently has the Haitong Trading Co in Hong Kong. It employs few people and it is not what it should be. It is difficult for the company to undertake the work of consolidating and expanding our role in the Hong Kong and Southeast Asia markets. Furthermore, Henan should be steadily and rapidly setting up trading offices in Japan, the United States, West Germany, Kuwait and the USSR to be responsible for trading ties and operations in these countries and adjacent areas. At the same time we must make use of customary international methods, make more use of brokerage, commission sales, agents, wholesale trade, retail trade and other different types of customers. In particular we must concentrate on selecting those large and medium sized clients with good credit and business competence, establish long-term cooperative ties with them, protect their interests and let them fully serve our interests. It is also necessary to emphasize developing the important role of overseas Chinese and foreign businessmen of Chinese origin. We must use their patriotic zeal to promote our sales and support the establishment of the four modernizations in their hometowns.

3. Readjust the export mix and consolidate and expand the export market by means of quality and quantity. According to statistics, in 1982 Henan exported 581 kinds of commodities to 1 to 2 countries and regions, constituting 67.95 percent of the total number of exports in Henan; 39 kinds of export commodities were exported to more than 10 countries and regions, constituting 0.45 percent of the total number of exports; and 9 kinds were exported to over 20 countries and regions, constituting 0.1 percent of the total number of exports. At present our province only exports two products to 33 countries and regions: fine pottery and porcelain for daily use. Textiles are our largest top-quality export; 100 types are exported, of which 67 are exported to 1 to 2 countries and regions, only 9 types are exported to more than 10 countries and regions, and only 3 are exported to more than 20 countries and regions. This situation clearly shows that Henan's export market is underdeveloped in both quality and range. In order to change this underdeveloped state, it is necessary to strive to develop agency export business. This is the direction we should head in developing foreign trade. Henceforth in all foreign trade talks, in sales exhibitions abroad, in marketing, in investigations and in the Guangzhou Export Commodities Fair we should do our best to let comrades in industrial sectors participate. This will benefit them in understanding both changes in the international commodity market in a timely manner as well as consumer views. They can then consciously and actively adopt measures to readjust the export commodity mix; increase variety, improve product quality and grade, improve packaging, catch up with and surpass standards of similar goods on the international market, rely on the superiority of the quality and quantity of goods and consolidate, capture and develop export markets. In the next several years Henan should consolidate and develop the export of textile goods, cereal, oil and food products and local livestock products; expand the export of the five ores, chemical medicines, light industrial goods and handicrafts. In particular we must increase the export of mechanical and electrical instruments.

4. Integrate imports and exports and expand the export market using imports to promote exports. Problems in this area in our province are quite pronounced. They are mainly manifested in the lack of organic integration between imports and exports, commodity trade and technology trade, foreign trade and absorbing foreign capital, foreign trade and economic and technical cooperation, etc. In terms of administrative management they are two separate things and in terms of business transactions they have nothing to do with each other. This is very disadvantageous to expanding foreign trade. We should ensure that all foreign trade import and export companies have import and export powers in reality, not just in name. Exports must promote imports, imports must provide impetus for exports and exports must be increased. At the same time, it is necessary to strive to develop compensatory trade, the processing of imported materials, cooperative production, and other methods to bring in advanced technology and equipment and to promote and expand exports. During work to attract foreign capital we should pay attention to investment trends and economic benefits. Not only can we effectively encourage the development of Henan's industrial and agricultural production, we must also ensure that it directly or indirectly serves to expand our exports. As for foreign economic and technological cooperation, it is necessary to strive to do good work in cooperative production and project contracts so that they encourage the export of machinery, equipment and raw and subsidiary materials from Henan. In view of the abovementioned conditions, Henan must form a unified foreign economic relations and trade department to make unified arrangements and control Henan's imports and exports. This department will expand and open up Henan's export markets step by step using various means and channels while keeping our objectives in mind.

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FOREIGN TRADE AND INVESTMENT

ANSWERS TO FOREIGNERS' QUESTIONS ABOUT INVESTING IN CHINA

Beijing GUOJI MAOYI [INTERTRADE] in Chinese No 6, 27 Jun 85 pp 22-23

[Article by Dong Shizhong [5516 0013 1813]: "Answers to Questions Concerning Foreigners Intending To Invest in China (4)"]

[Text] 1. What taxes will have to be paid by Chinese-foreign joint venture enterprises?

Answer: Joint ventures with Chinese and foreign investments that are operated within China must pay, in addition to customs duties, the Chinese-foreign joint venture income tax, the industrial-commercial consolidated tax, real estate tax and vehicle and ship license tax. According to China's Provisional Regulations Governing Import and Export Duty, all goods that are allowed to be imported into or exported from China must pay import or export duties at the rates of China's import-export duty tariff, unless otherwise specially provided by law. To encourage foreign investments, exemption from import duty is granted to Chinese-foreign joint venture enterprises and wholly-owned foreign enterprises for machinery, equipment and materials needed for the construction of factories and for the improvement of machinery and equipment, up to the amount of the investment. Enterprises with joint Chinese-foreign cooperative management engaged in the development of energy sources, the construction of railways, highways and ports, or in industry, agriculture, forestry, animal husbandry, aquatic breeding, science and education shall be exempted from import duties to the extent of the foreign investment in respect of the importation of machinery, equipment and materials needed for the construction of factories or for the improvement of machinery and equipment. Exemption from import duty shall also be granted in the case of Chinese-foreign joint exploitation of offshore oil with respect to machinery, equipment, parts and materials directly needed for prospecting and extraction, as well as for components, parts and materials for the manufacture of machinery and equipment needed for extraction.

2. How are Chinese-foreign joint venture enterprises to pay income tax?

Answer: Chinese-foreign joint venture enterprises must pay tax according to the Income Tax Law Concerning Joint Ventures with Chinese and Foreign Investments. Income tax shall be levied on the income of the said enterprises derived from their production, business operations and other sources within

China. Tax shall also be paid according to law on the income of branch establishments of the said enterprises outside of China.

Income tax for Chinese-foreign joint venture enterprises shall be levied at the proportional rate of 30 percent. In addition, a local income tax of 10 percent of the assessed income tax shall be levied. The following shall be the method of assessment: the taxable amount shall be the total amount of income of the joint venture enterprise during the tax year, less costs, expenses and losses.

If one party of the Chinese-foreign joint venture in China remits a share of the profits allotted to him by the enterprise to somewhere outside China, an additional 10 percent tax shall be levied on the remitted amount.

The income tax on Chinese-foreign joint venture enterprises shall be levied on a yearly basis and paid quarterly in advance. A final settlement shall be made within 5 months after the end of a year. Excess payment shall then be refunded or deficiencies made good.

3. What is the industrial-commercial consolidated tax, and how is it to be paid by Chinese-foreign joint venture enterprises?

Answer: The Chinese industrial-commercial consolidated tax is levied according to the circulation of products or commodities. Any enterprise engaged in China in any kind of industrial or commercial activity must pay this tax according to law. In the case of industrial enterprises, the taxable amount is assessed according to the income derived from the sale of their products or from their processing. In the case of communications, transport and service trades, the taxable amount is assessed according to the income from their business activities. In the case of commercial enterprises, the taxable amount is the amount of total sales of their commodities. On imported commodities the tax is levied by the customs offices. In case of retail sales, the industrial-commercial consolidated tax is levied on the amount of the retail sales.

The industrial-commercial consolidated tax differentiates tax items by products or business activities; different proportional tax rates apply to different tax items.

Since 1 January 1973, an industrial-commercial tax is levied domestically on a trial basis. Because it has never been officially legislated, enterprises with foreign investments are, therefore, still taxed according to the industrial-commercial consolidated tax. As it is now intended to encourage foreign investments, whenever the rates of the industrial-commercial consolidated tax are higher than the rates of the domestic industrial-commercial tax, the rates for Chinese-foreign joint ventures, joint production and wholly-owned foreign enterprises shall be those of the industrial-commercial tax, so as to have uniformity between the industrial-commercial consolidated tax for the Chinese-foreign joint ventures and the industrial-commercial tax for domestic industrial and commercial enterprises. Since domestic industrial and commercial enterprises are in the process of experimentally converting from profit delivery to taxation, their tax rates



are comparatively high. If the industrial-commercial consolidated tax paid by Chinese-foreign joint ventures is higher than the rates of the industrial-commercial tax, tax shall be levied at the rate of the industrial-commercial tax. This is a favorable treatment granted to Chinese-foreign joint venture enterprises in their taxation.

4. How are Chinese-foreign joint venture enterprises to pay real estate tax?

Answer: The urban real estate tax comprises house tax and land tax. Joint venture enterprises must pay land use tax, but not land tax. The house tax is levied at an annual rate of 1.2 percent based on the standard value of the house, and is to be paid semi-annually. The standard value of the house is determined by the department in charge according to the ordinary level of house values. As it is difficult to assess the actual value of most houses in China, when real estate tax has to be assessed, it is only possible to assess the tax according to a standard value. As to houses newly built or expanded by Chinese-foreign joint venture enterprises, we believe they could be assessed real estate tax according to their original book value.

5. How are Chinese-foreign joint venture enterprises to pay vehicle and ship license taxes?

Answer: The target of vehicle and ship license taxes is all vehicles and ships moving in public road and waterway districts. The tax is to be assessed per quarter and per vehicle. Passenger cars shall pay 80 yuan per vehicle, trucks 15 yuan per ton, payable semi-annually. Cars for agricultural use, for fire fighting, for environmental hygiene and for the use of disabled persons are exempt from car license taxes.

6. Under what conditions can foreigners intending to invest in China claim reduction of or exemption from taxation?

Answer: The following are cases of favorable tax treatment geared to promoting foreign investments or the importation of technologies into China:

(1) Encouraging direct investments for the establishment of enterprises. Foreign businessmen who will start enterprises with the investment of advanced technologies can, for certain periods and selectively, be exempted from enterprise income tax. For instance, for 5 years from the first year of achieving profits, Chinese-foreign joint enterprises may be exempted for 2 years and taxed at half-rate for 3 years. The favorable income tax treatment may allow for certain items a reduction from 10 to 30 percent of the income tax for 10 additional years following the expiration of the 5 year tax exemption/reduction period.

For property created by capital investment it will be permissible to shorten the number of years of depreciation and speed up the recovery of invested capital. The law distinguishes three categories of fixed assets and prescribes separate minimum years of depreciation for each. Apart from the 20-year period for houses and structures, the period is always to be 5 years or 10 years. For certain fixed assets permission may be given to have speedier depreciation. Particularly for investments in offshore oil

exploitation, the depreciation periods can be further shortened, without leaving any residual value.

Machinery and equipment imported by Chinese-foreign joint venture enterprises as investment or as supplemental investments, besides being exempt from customs duty, shall also be exempt from industrial-commercial consolidated tax.

(2) To encourage marketing of products abroad, export products of enterprises with foreign investment shall be exempt from industrial-commercial consolidated tax. Raw and other materials imported for the production of export commodities shall be exempt from customs duty and industrial-commercial consolidated tax.

(3) To encourage the importation of advanced technologies, income tax at half rate shall be levied on use fees obtained by foreign businessmen for exclusively-owned technologies supplied in the areas of agriculture and animal husbandry, scientific research, energy sources, communications, transport and for the development of special technologies. In such cases, total exemption from income tax may be granted if the technologies are of an advanced nature or provided under favorable conditions. Key instruments and equipment imported supplementary to imported exclusively-owned technologies shall be exempt from customs duty and industrial-commercial consolidated tax.

(4) Encouraging the granting of low interest loans to China. Interest on loans granted the Chinese Government or government banks by international financial organizations, as well as interest on loans granted to Chinese government banks by foreign banks according to the discount interest rate of the international banking trade, shall be exempt from income tax. Interest on export credits granted by a bank in the other party's country for the importation of technology by Chinese enterprises, purchase of equipment or commodities, and the capital and interest of purchase prices repaid by Chinese enterprises in products in cases where foreign businessmen provide technology and equipment to Chinese enterprises, or the interest on purchase prices repaid by work remuneration for processing imported material or assembly work, shall all be exempt from income tax.

(5) Foreign businessmen who invest in the special economic zones or the 14 open coastal cities may also enjoy favorable treatment as stipulated by the various special zones and cities according to their particular conditions. For instance, if foreign businessmen invest in Shanghai to operate Chinese-foreign joint venture enterprises, cooperative management enterprises and wholly-owned foreign enterprises of a productive nature, falling into the category of technology-intensive or knowledge-intensive undertakings, or if the foreign investment exceeds \$30 million and constitutes a long-term investment, the enterprises involved may, with the approval of the Ministry of Finance, have their income tax reduced to 15 percent.

7. Do the taxable profits of a Chinese-foreign joint venture enterprise include reserve funds, bonus and welfare funds for staff and workers and development funds (for short: the three funds)?

Answer: The Chinese Law Governing Chinese-Foreign Joint Enterprises stipulates that the "three funds" will be deducted, according to statutes, from the gross profits earned by a joint enterprise, after it will have paid its income tax according to Chinese income tax law. The taxable profits of a Chinese-foreign joint venture enterprise are its gross profits which include the "three funds," which will have to be withdrawn later.

The Regulations for the Enforcement of the Law Governing Chinese-Foreign Joint Venture Enterprises further stipulate that in the case of joint enterprises, the three funds shall be withheld from profits only after income tax has been paid from the profits according to the Income Tax Law Concerning Joint Ventures with Chinese and Foreign Capital.

8. Must technical advisers who reside in China for periods of 12 weeks or longer pay income tax?

Answer: According to the provisions of the Chinese Personal Income Tax Law, individuals who do not reside in China, or reside in China for less than 1 year, have to pay personal income tax only on their earnings in China. The Enforcement Regulations to the Chinese Income Tax Law stipulate, furthermore, that income derived from work performed or duties rendered in China, regardless whether paid inside or outside of China, is liable to income tax according to the tax laws. However, anyone residing in China continuously for less than 90 days is exempt from income tax for remuneration obtained from his employer outside of China. For instance, if a foreign technical adviser is paid a salary by a Chinese enterprise or unit for work performed in China, he has to pay income tax, regardless of how many days he stays in China. If he resides in China for more than 12 weeks, but not exceeding 90 days, he pays income tax only on income derived from his Chinese employer; remuneration from his employer outside of China are exempt from income tax.

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## FOREIGN TRADE AND INVESTMENT

### THEORETICAL BASIS FOR CURRENT FOREIGN TRADE REFORM

Beijing GUOJI MAOYI [INTERTRADE] in Chinese No 6, 27 Jun 85 pp 29-30

[Article by Wang Shaoxi [3769 4801 3356]: "Tentative Discussion of the Theoretical Foundation and Major Characteristics of the Current Reform of Our Foreign Trade System"]

[Text] On 15 September last year, the State Council endorsed and transmitted a report of the Ministry of Foreign Economic Relations and Trade, which stated its views on the reform of the foreign trade system and advised all localities to implement the stated ideas conscientiously. This marked the advent of a new phase in the reform of China's foreign trade system. The present reform aims at some crucial problems in the original foreign trade system and attempts an overall reform with regard to organizational patterns, administrative competence, and division of labor in trade management. It involves radical readjustments and restructuring of the economic relations between the foreign trade departments and the enterprises, as well as those between the foreign trade departments and foreign trade enterprises, on the one hand, and other economic departments and enterprises, on the other, in order to meet the economic needs arising from implementation of the policy of opening up toward the outside world and invigorating the domestic economy and in order, also, to speed up the "four modernization" projects. In essence, it amounts to adjusting and reforming in the area of foreign trade such production relations that do not suit the development of the social productive forces, and to establishing a new system of foreign trade operations and management that will be consonant with the objective demands posed by the development of China's productive forces at the present stage. The current reform of our foreign trade system is a transformation of a fundamental nature based on a new theoretical foundation.

#### I. The Cognitive Roots of the Former Foreign Trade System

Prior to the 3d Plenum of the 11th CPC Central Committee, the main characteristics of China's foreign trade system were a high degree of centralization and reliance mainly on administrative controls. This was consistent with the economic system of those days, one aspect of which was that it had to cope with the various national and international conditions during that historical period. It also played a positive role in implementing a uniform policy, a uniform plan and uniform principles in China's stand

against the outside world, smashing "embargoes" and "blockades" imposed by imperialism against China, withstanding economic pressures from foreign countries, supporting our diplomatic struggles, promoting our economic construction, and so on.

By the resolution of the 3d Plenum of the 11th CPC Central Committee, the focus of all party work was shifted to construction in the interest of socialist modernization, a shift that initiated a new era in China's historical development. In this new situation, our foreign trade system was experimentally subjected to a systematic reform. After 5 years of practical experiences in the reform, certain successes had been achieved, mainly: 1) changing conditions for the business operations of independent firms, expanding channels for business operations, stimulating eagerness among local entities and departments to develop export business; 2) expanding the scope of local entities to engage in export business of their own, instituting a classified control of export commodities; 3) exploring certain ways of integrating industry with trade, technology with trade and of establishing a direct linkage between production and marketing, bringing about an integration of the advantageous factors of production and trade and a greater effectiveness in importing technologies, in promoting the upgrading and updating of products, and in the expansion of exports.

However, fundamental drawbacks have persisted, not only in the foreign trade system prior to the 3d Plenum of the 11th CPC Central Committee, but also in the succeeding experimental reforms of our foreign trade system, drawbacks that are inconsistent with the objective demands of the developing social productive forces. The main drawbacks are: overly rigid controls of business operations by independent firms, which is detrimental to our efforts to stimulate eagerness for foreign trade among all concerned; disjointed operations of industry and trade, of technology in relation to trade, and disjunction between production and marketing; all "helping themselves from the big common pot," without regard for economic results; exclusive reliance on administrative measures; and inaptitude for the application of the law of value and of market mechanisms. The drawbacks in our foreign trade system that have seriously hampered our economic development since the 3d Plenum of the 11th CPC Central Committee have not been radically eliminated. This is mainly apparent in the following: governmental and enterprise responsibilities in management not being separated, and responsibility, authority and profits not being combined; stifling overcentralization of business operations, with too many restrictions and a disjunction between industry and trade; in financial matters, the state assuming all responsibility for profits and losses, all "helping themselves from the big common pot," and poor economic results.

There are objective reasons, political and economic, for the long-standing existence of the various drawbacks stated above. However, examining them from a subjective viewpoint, the main reason is an inaccurate understanding of socialism. Concepts are much blurred and many erroneous interpretations exist when it comes to such important theoretical questions as to what is socialism, what is capitalism, whether to develop a socialist commodity economy and whether the law of value should be fully applied.

For instance, people erroneously believed for a long time that under the conditions of socialist public ownership, government and enterprises are one and the same. That is why the administrative departments in charge of foreign trade controlled the foreign trade enterprises too rigidly, so that foreign trade enterprises became mere appendages of the administrative departments in charge of foreign trade.

And again, people erroneously believed for a long time that socialist planned economy is incompatible as fire and water with socialist commodity economy.

And again, people erroneously believed for a long time that under the socialist system of public ownership there has to be the "iron rice bowl" and the "eating from the big common pot." As a result, in the financial system of our foreign trade, the state assumed all responsibility for profit and losses, without paying any attention to economic results.

And again, people erroneously believed for a long time that socialized large-scale production in socialism must have a strict organizational leadership, so that all departments and all trades emphasized above all their vertically subordinate relationships, strictly separating central and local jurisdictions. As a consequence, the organizational structure of foreign trade enterprises also mainly stressed the vertically subordinate relationships, characterized by strict vertical and horizontal cleavages. In this way, operations became disjointed between the various foreign enterprises themselves and between foreign trade enterprises, on the one hand, and commodity supply departments and commodity use departments on the other. Production, supply and marketing operations were cut apart, and there was no integration of industry with trade and of technology with trade.

Briefly, we may summarize the situation as setting up a unitary system for foreign trade, centralizing the leadership and management powers of foreign trade, treating foreign trade planning in absolute terms, equalizing foreign trade distribution and splitting up the organizational structure of foreign trade. These special features can be traced to the same source as the special traits of China's former national economy. They have the same cognitive roots, namely the failure to recognize the fact that the essence of the socialist economy is planned commodity economy. It was therefore not possible to lead and manage the economy according to the objective demands of the laws of commodity economy.

## II. The Theoretical Foundation and Main Features of the Current Reform of Our Foreign Trade System

The reform of the foreign trade system is one aspect of the reform of our economic system. The reform of the foreign trade system necessarily relies on the same theoretical foundation as the reform of the economic system.

The Central Committee resolution on the reform of the economic system points out: socialist planned economy "is a planned commodity economy based on the system of public ownership. The full development of a commodity economy is an unavoidable stage in the development of our social economy and a necessary condition for the realization of China's modernization."

The theory of the socialist commodity economy is a new theory set forth by our party in summing up the experiences gained from socialist practices abroad and at home. It laid the theoretical foundation for the reform of China's foreign trade system and for the reform of our economic system, clarifying the direction of our reform and constituting an important theoretical breakthrough, which greatly enriched the treasure-house of Marxist socialism. It is also bound to promote China's socialist undertakings and may, at the same time, have an enormous international impact.

According to the theory of the socialist commodity economy, our new system of foreign trade must have the following four basic features:

First, foreign trade enterprises must truly become relatively independent commodity producers and commodity traders. The "Resolution" points out: "According to Marxist theory and socialist practice, it is possible to appropriately separate ownership rights and managerial powers." To meet the needs of the developing commodity economy, to imbue our foreign trade enterprises with an abundance of vitality and vigor, all our foreign trade enterprises operating under the new system must--on the premise of abiding by the state plan and state controls--truly operate as relatively independent economic entities, truly become independent socialist commodity producers and traders genuinely independent in their business operations and fully responsible for their own profits and losses. This is determined by the essential character of the socialist commodity economy.

Second, a foreign trade planning and management system that integrates centralization with flexibility. The "Resolution" points out: "Practicing planned economy does not preclude, but rather combines, utilization of the law of value and development of a commodity economy; to place these two factors in antagonistic opposition is a mistake." This, then, laid the theoretical foundation for the reform of our planned management system in foreign trade. Guided by this theory, we must establish a system of planned management of foreign trade that integrates centralization with flexibility. A system of this nature is beneficial for stronger leadership in macroeconomic respects and for invigorating and opening up in microeconomic respects, also for an "effective accommodation of the larger aspects, and for opening up and invigorating of the smaller aspects." It will enable the foreign trade enterprises to operate in a fairly flexible manner, it will be capable of coping with the many changes that are characteristic of the international market, it will raise the capability of the foreign trade enterprises to manage their business affairs, and--on the premise of maximizing economic results--it will also accomplish all tasks of the state. Establishing a foreign trade system that integrates centralization with flexibility will therefore require an appropriate reduction by stages of the sphere of directive-style planning in foreign trade and an appropriate broadening of the sphere of guidance planning. Guidance planning is mainly realized through the use of economic levers, while the role of market regulation must be brought into play simultaneously. This is also determined by the essential character of the socialist commodity economy.

Third, a foreign trade system with the conscious reliance on and use of the law of value. For a long time past, being ignorant of the fact that socialist



economy has attributes of commodity economy, the role of the law of value under the conditions of socialism could not be accurately realized. As to the function of the law of value, emphasis was merely placed on its restrictive aspects and its application was totally neglected. Actually, under the conditions of the socialist commodity economy, the law of value plays an enormously important role in all fields of the economy and in all economic activities; we have to apply it and must never violate it. The new foreign trade system must, therefore, be one that consciously relies on the law of value and applies it. The conscious application of the law of value in a system of foreign trade management means that domestic prices for import-export commodities must be appropriately linked with their prices in the international market. It means having all exchanges between foreign trade enterprises and production enterprises, commodity supply departments and commodity use departments effected at equal value. It means that guidance, control and regulation of import-export activities will be carried out by means of such measures of economic regulation as taxation, pricing, subsidies, credits, etc., and by bringing market regulation into full play. All foreign trade enterprises must make it their key concern to strengthen economic accounting, improve business management, raise economic results, and so on.

Fourth, a foreign trade system with many sectors, many levels, many economic patterns and many business forms. The unitary pattern and form of the former foreign trade system is inappropriate for business operations by independent firms and incompatible with the socialist commodity economy; it is also detrimental to enlivening foreign trade and developing productive forces. Under the guidance of the theory of socialist commodity economy, we should establish a foreign trading system of many departments and many levels, and fully arouse the enthusiasm for foreign trade among all sectors and all local entities. We must at the same time change the unitary economic pattern and business form of foreign trade and gradually establish a foreign trade system with the state-run economy in the leading role, but with a variety of economic patterns and business forms, such as Chinese-foreign joint venture enterprises, wholly-owned enterprises, collective economies, etc., so that under the unified leadership of the state, the proverbial "eight saints may cross the sea," each displaying his personal magic, thus initiating a new situation in our foreign trade.

To sum up, the theory of the socialist commodity economy set forth by the CPC Central Committee has laid an important theoretical foundation for the establishment in China of a socialist economic system with Chinese characteristics and for a new system of foreign trade with abundant vitality.

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## FOREIGN TRADE AND INVESTMENT

### INCREASING EXPORTS AS KEY TO IMPROVING TRADE WITH JAPAN

Beijing GUOJI MAOYI [INTERTRADE] in Chinese No 6, 27 Jun 85 pp 43-44

[Article by Wei Xiaorong [7614 1420 2837]: "Expanding Exports Is the Key to Improving Trade With Japan"]

[Text] In 1984, Chinese-Japanese trade experienced a very considerable expansion. Everybody is now concerned about the further development of Chinese-Japanese trade. In my opinion, the crux of this matter is to expand our exports to Japan. In our economic and trade affairs as they relate to Japan, it is a matter of primary importance to formulate strategy for exports to Japan, and also to adopt the correct policy and effective measures to ensure the smooth conduct of such exports, to gradually change the commodity structure of our exports to Japan and to maintain our exports to Japan at a high quality. This alone will ensure the sound and long-term development of our exports to Japan.

#### I. Record Chinese-Japanese Trade Achieved in 1984

According to statistics compiled by the relevant Chinese departments, Chinese-Japanese trade in 1984 amounted to \$12,728,000,000, establishing a record in Chinese-Japanese trade and constituting a 40.2 percent increase compared with 1983. In this figure, China's exports to Japan account for \$5,354,000,000, a 20 percent increase compared to the previous year, and China's imports from Japan account for \$7,374,000,000, an increase of 60 percent compared to the previous year. The rate at which imports and exports increased exceeds the average rate of increase in the last 5 years. China had a negative balance of \$2.02 billion in Chinese-Japanese trade relations.

The largest increases in our exports to Japan were registered in the following items: textiles: \$545 million, or an increase of 75.8 percent; grain, oil, foodstuffs: \$679 million, or an increase of 28 percent; chemical industry products: \$2,896,000,000, or an increase of 17.6 percent.

The increase in China's imports from Japan were mainly due to large increases in such commodities as steel products, complete plants, television sets and automobiles. Steel materials, imported and delivered, amounted to 8,339,000 t, or \$2,699,000,000. The increases in these two figures, compared with 1983, were 28.9 and 28.8 percent, respectively. This item alone accounted for 36.6

percent of our total import value. Complete plants and technologies, imported and delivered, amounted to \$430 million, an increase of 54.6 percent; colored television sets, imported and delivered, numbered 824,000 sets, or \$150 million, increases of 6.5 times and 10 times, respectively. Automobiles, imported and delivered, accounted for \$190 million, an increase of 3.4 times.

## II. Ten Suggestions for the Expansion of Exports to Japan

Chinese-Japanese trade has developed smoothly since the establishment of diplomatic relations, from a total trade value of less than \$2 billion to today's value of \$12.7 billion--a 5.35-fold increase--which is a record. Chinese-Japanese trade accounts for one-quarter of China's total foreign trade value and Japan stands in first place among all countries trading with China, thus occupying an important position. Can there be further development in Chinese-Japanese trade, and if so, how? This is an important topic that is faced by all sectors involved in Chinese-Japanese trade. It is my opinion that the key problem, which is decisive for the significant development of Chinese-Japanese trade, is whether Chinese exports to Japan can be rapidly increased. Last year's negative balance in Chinese-Japanese trade was \$2 billion, which was also the highest in the history of Chinese-Japanese trade relations. Only by expanding exports to Japan can significant amounts of foreign exchange be earned to enable the purchase of more Japanese products; otherwise, the development of Chinese-Japanese trade will be limited, and it will be impossible to achieve large increases in volume. In the interest of larger Chinese exports to Japan, a common effort is required by all involved in Chinese-Japanese trade. Only by mutual coordination and cooperative operations can we achieve a satisfactory result. The following ten suggestions on how to expand exports to Japan may serve the departments concerned as reference:

- (1) We must raise the competitive strength of our export commodities, improve their quality, improve designs, colors and assortments, improve shipping conditions, etc.
- (2) Taking the reality of China's condition as starting point, we must continue to increase our exports of petroleum and petroleum products.
- (3) We must further increase the exports of China's agricultural products. Japan has to import large quantities of corn, soybean, cotton and vegetables every year. These products are abundantly available in China and could be supplied on a steady basis.
- (4) We must raise the quality of our exports of clothes and other textile products and thus increase the value accruing to these exports.
- (5) We must ensure continued export of our traditional export commodities, such as chestnuts, raw lacquer, tung tree wood and rosin. We must maintain our former sales connections and consolidate the market for these products.
- (6) We must continuously open up markets for new commodities and adopt effective measures to protect the interests of those who open up markets for new products. For instance, the export of live cattle to Japan has been the

result of a 35-year effort on the part of trade circles in both countries. We must support and develop such activities.

(7) We must diversify the trade patterns. Apart from continued commissioning of processing and compensatory trade, we must strengthen entrepot trade.

(8) The government must enact a policy of encouraging export trade and must grant preferential treatment in the matter of foreign exchange rates, loan interest and customs duties, and must also reward enterprises that make meritorious contributions to our export trade.

(9) As a long-term policy, we must gradually increase the export of manufactured and semifinished goods to Japan.

(10) We hope that the Japanese Government will eliminate certain artificial impediments and provide favorable conditions for larger imports of Chinese goods. There are, for instance, restrictions on rice straw and its products exported from China; it is not yet possible to smoothly transact the export of raw silk, silks and satins to Japan.

Japan should also start out from the benefits for an expansion of Chinese-Japanese trade in simplifying procedures and relaxing restrictions regarding exports to China of certain advanced electronic technologies, where procedures are cumbersome, requiring multilayered approval.

If the work that is outlined in the above is effectively pursued, the volume of our exports to Japan can be greatly increased.

The development of Chinese-Japanese trade can count on the favorable conditions of "right climate, favorable geography and support of the people." As long as both sides, Japan and China, will exert joint efforts and effect close coordination, the prospects are bright. We can rightly assume that Chinese-Japanese trade, based upon the foundation of last year's large increases, can achieve new developments this year.

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XINHUA DETAILS OVERSEAS INVESTMENT IN FUJIAN

OW290807 Beijing XINHUA in English 0735 GMT 29 Jul 85

[Text] Fuzhou, July 29 (XINHUA)--Overseas investment in Fujian province in the first half of this year was more than double that in the same period of last year, according to local authorities.

In the first six months of this year the province signed 278 contracts, involving a total investment of 210 million U.S. dollars.

The contracts include 149 joint ventures, with an overseas direct investment of 120 million U.S. dollars, and 122 cooperative enterprises involving an overseas investment of 84.4 million U.S. dollars.

Among the new projects approved, 214, or 79 percent, are in metallurgy, machine-building, electronics, chemicals, building materials, and light and textiles industries, joint ventures and cooperative schemes in agriculture, forestry and aquaculture and animal husbandry number 11.

Fuzhou city, one of the 14 coastal cities opened to foreign investors last year, signed 43 joint-venture and cooperative scheme contracts, involving a total overseas investment of 22.49 million U.S. dollars -- 63.5 percent more than the figure for the whole of 1984.

In the first six months, 16 projects using imported equipment went into operation.

Overseas investors are showing keen interest not only in Fujian's coastal cities but also in the inland areas. Last year, Longyan, Sanming, Jianyang and Ningde signed 31 contracts involving foreign investment, 11 percent of the provincial total. Since the beginning of this year, they have signed 37 such contracts.

CSO: 4020/317

FOREIGN TRADE AND INVESTMENT

NUMBER OF TOURISTS SKYROCKETS IN FIRST HALF-YEAR

OW241336 Beijing XINHUA in English 1322 GMT 24 Jul 85

[Text] Beijing, July 24 (XINHUA)--Six-hundred and thirty-five thousand foreign tourists visited China in the first half of this year, 34 percent more than in that period of 1984, according to a report today by the international travel service.

By the end of June, the international travel service alone had received 211,800 foreign visitors, up 21.2 percent from 1984.

In addition, there was a great influx of foreign business people.

According to the public security ministry, 20 million border crossings were recorded in the first six months, 55 percent more than in last year's same period.

Chinese going abroad during the first six months on official business came to 380,000, up 86 percent. Personal trips, mainly to visit relatives or to study at foreign schools, accounted for 190,000, an increase of 46 percent.

Chinese travellers from Hong Kong and Macao numbered 16 million, 60 percent more than in the first half of last year.

Japanese accounted for 200,000 of the half-year influx, an increase of 40 percent over last year. They were followed by tourists and travellers from the U.S. with 110,000, a 31 percent increase. Then came Australians with 40,000, up 34 percent and Britons with 30,000, up 22 percent. French entries and exits totalled 10,000, an increase of 60 percent.

There were more than 8,000 border crossings by travellers from the Soviet Union, an increase of 31 percent over last year's corresponding period.

The above figures do not include border crossings at sino-burmese, sino-korean and sino-nepalese border stations...

The tourist influx is continuing into July. A big increase is expected during the peak season of August, September and October, the international travel service said.

CSO: 4020/317

FOREIGN TRADE AND INVESTMENT

OECD REPORT SEES PRC GRAIN IMPORTS TAPERING OFF

AU311400 Paris AFP in English 1343 GMT 31 Jul 85

[Text] Paris, July 31 (AFP)--China's grain imports, which reached almost 16 million tons in 1982, might taper off to a level perhaps as low as 2.5 million tons by 1990, a report today by the Paris-based Organization for Economic Cooperation and Development (OECD) said.

The report said this "indication" was based on "the most likely scenario" for the next few years, assuming that China's own grain production would rise to about 443 million tons by 1990 from an average of 370 million tons in the accord years of 1982-1983, with yields showing a more modest annual increase of 2.5 percent from this year.

The report noted that "actual grain production up to 1983 has by far outpaced plan targets of the 6th five-year plan with an unprecedented average growth rate of about five percent between 1978 and 1983."

The plan set a 1985 target of 360 million tons and one of 397.5 million tons for 1990.

The authors of the report said that trends towards a better diet for China's steadily growing population pointed to higher demand for livestock products and "sharply" rising demand for feed grain. They said that "China's future grain imports will therefore very largely depend on the amount of grain used for livestock production".

If meat production expanded at recent rates and considering "China's deficient transport system which makes it difficult in the foreseeable future to move much more grain from areas of oversupply to areas of undersupply and to major cities", the 1990 import requirement might be somewhat higher than the 2.5 million tons estimate, the report said.

On non-grain commodities, the report said China might, over the next five years, "stabilize its position of self-sufficiency" in cotton, "and perhaps even dispose, occasionally, of smaller amounts of raw cotton for exports."

But developments influencing China's textile exports and domestic consumption trends would be key factors in the country's future cotton trade.

The report said there were "indications" that China would have "some quantities" of vegetable oil available for net export in future, while sugar imports were likely to remain "high although perhaps falling from their 1982 record level."

The OECD report analyzed the changes brought about in Chinese agriculture through the family-based "responsibility systems", noting that the upheaval this had triggered in rural economic structures, including finance, was "not far short of a real revolution".

But it said that ensuring continued capital investment in farmland improvement and development, including adequate maintenance of local irrigation systems, was among "vital problems" still to be solved under the new farm policy.

Present policy could also "heighten the dualism between poor regions with little surplus and rich regions that market a large share of what they produce," the report said.

A similar dualism was appearing between "semi-subsistence farming families" and the "specialized family farms" accounting for a large share of the output.

"A crucial factor for maintaining the present growth will therefore be the capacity of the Chinese authorities to find the necessary stimulating mechanisms to ensure that increasingly broad strata of the farming population have access to modern production facilities," the report said.

CSO: 4020/317

FOREIGN TRADE AND INVESTMENT

BRIEFS

FERTILIZER PLANT IN PRODUCTION--Urumqi, August 2 (XINHUA)--A large chemical fertilizer plant which can provide fertilizer for over 3.3 million hectares of farmland went into production Wednesday in this capital of northwest China's Xinjiang Uygur autonomous region. The plant, located 25 km northeast of Urumqi, covers an area of 160,000 sq meters and involved an investment of 580 million yuan. With a synthetic ammonia unit imported from Japan and a urea unit co-designed by China and the Netherlands, the plant can produce some 1.1 million tons of fertilizer annually to bring about an increase of an estimated two million tons of grain a year in the region. The construction of the plant started in 1981 with the aid of more than 3,000 workers from Sichuan, Henan, Shandong and Hebei provinces. Over 60 foreign experts from Japan, the United States, West Germany, the Netherlands and Denmark also took part in the construction. It was completed one month and a half ahead of schedule. [Text] [Beijing XINHUA in English 0634 GMT 2 Aug 85 OW]

BONDED WAREHOUSE IN SHANGHAI--Shanghai, August 3 (XINHUA)--Britain's International Paint Corporation set up a bonded warehouse here on Friday in cooperation with the Shanghai Shipbuilding Industry Corporation. The warehouse practices a delayed tax system under which no import duty is paid until all goods in the warehouse are sold through the Chinese commission agent. The British firm will provide the Shanghai Corporation with various paints for ships and technical and consultancy services. The import of such paints is expected to stimulate China's ship-repair industry, as more and more foreign ships are calling at Chinese ports for servicing, an official of the Shanghai firm said. [Text] [Beijing XINHUA in English 1553 GMT 3 Aug 85 OW]

CIEC BUILDS THRIVING CONSULTANCY BUSINESS--Beijing, July 26 (XINHUA)--China International Economic Consultants (CIEC) have helped 270 sino-foreign businesses over the past 18 months--three times the figure for the preceding three years, according to a CIEC official. Major ventures receiving CIEC business consultancy services include the Shanxi Pingsuo coal mine (in cooperation with the United States), the Jiangsu-suntory food company (Japan), the Tianjin-otis Elevator Company (U.S.), Guangzhou light-duty truck factory (France) and China's offshore oil development. Other services cover feasibility studies and evaluations, market surveys for investment, technical import and production, economic analysis, legal opinions, drafting or revising



of contracts and agreements on investments or companies articles of association. Founded in 1981, CIEC would strive to provide consultancy services for major joint ventures to be started during the seventh Five-year Plan (1986-1990), the official said. Meanwhile, it would further strengthen its links and improve cooperation with other consulting organizations at home and abroad, and increase contacts with China's open coastal cities. He proposed the establishment of a China Consultants' Association to promote their profession. It is estimated that China now has more than 200 organizations specializing in business consultancy. [Text] [Beijing XINHUA in English 1035 GMT 26 Jul 85 OW]

TOURIST BOOM EXPECTED IN XINJIANG--Urumqi, August 2 (XINHUA)--The Xinjiang Uygur autonomous region now has 106 tourist spots open to foreigners and expects to receive over 15,000 tourists from abroad as well as Hong Kong and Macao this year, according to the local tourism department. Visitors to this vast northwestern area have been on the increase since 1978, it received some 14,000 Chinese and foreign tourists last year. The region's tourist attractions are mainly located in the four cities which are at present open to foreigners--Urumqi, Turpan, Shihezi and Kashi (Kaxigar). Other tourist spots include Tianchi Lake in the Tianshan mountains, the flaming mountain made of red mudstone which seems to burst into flames in the blazing sunshine, Aydingkol Lake in Turpan, 154 meters below sea level and the world's second-lowest spot, and the 8,611-meter Mount Qogir. Newly developed tourist programs include visiting the homes of Kazak herdsmen, tasting their food and watching performances put on by people of minority nationalities. Other activities for tourists such as desert sightseeing, mountaineering, and skiing are being planned. [Text] [Beijing XINHUA in English 1906 GMT 2 Aug 85 OW]

JIANGXI PROVINCE GETS FOREIGN CONTRACTS--Nanchang, July 27 (XINHUA)--Thirteen sino-foreign cooperative projects had been registered in each China's Jiangxi province by mid-July this year and negotiations are still going on for others, the provincial governor announced here today. These projects, mainly in the electronics industry and tourism and service trades, will involve a total investment of more than 8.45 million U.S. dollars, Governor Nix Xiance said. Jiangxi has already signed contracts for 140 joint-venture and cooperative projects involving 578 million U.S. dollars with business people from 16 countries and Hong Kong at a trade conference held in Hong Kong early this year. The governor said that the province would pursue further foreign economic cooperation in such aspects as development of animal husbandry, aquatic products, nonferrous metals, and ceramics. Foreign cooperation will also include coal mining, hydroelectric power and tourist facilities. To provide better conditions for foreign investment, the province is building a number of hotels, expanding service facilities and improving communications systems. An air route between Nanchang, capital of Jiangxi province, and Huiyang in Guangdong province opened recently and a 10,000-line program-controlled telephone switching system to be installed in the 15-story telecommunications building in Nanchang will open to service next year. [Text] [Beijing XINHUA in English 1227 GMT 27 Jul 85 OW]

SHENZHEN TO HOST INDUSTRIAL EXPORT SEMINAR--Shenzhen, 3 August (XINHUA)--  
A seminar on the export of light industrial products will be held here August 5-10, according to its sponsor, the China National Light Industrial Products Import and Export Corporation. Altogether, 48 out of the 51 branch companies under the national corporation will attend the seminar, which will deal with more than 2,000 products. The seminar, the biggest organized by the corporation in 35 years, is a new effort spurred by the increasing volume of exported light industrial products as the country's agricultural and industrial production soars. Light industrial products were traditionally sold at the Guangzhou Export Commodity Fair, held twice a year in spring and autumn. The total volume of exported light industrial products exceeded one billion yuan in 1984. More than 3,000 invitations were sent out and buyers from dozens of countries are expected to attend the seminar. [Text] [Beijing XINHUA in English 1838 GMT 3 Aug 85 OW]

CZECHOSLOVAK PAPER ON TRADE RELATIONS WITH CHINA--Prague, 23 July (XINHUA)--  
A Czechoslovak weekly, "HOSPODARSKE NOVINY" (ECONOMY), in its latest issue reviewed the development of Sino-Czechoslovak relations in recent years and envisaged a wide possibility of furthering their economic cooperation. The renewed contacts between the two countries' leaders in trade and economic fields have played a vital role in the speedy development of Sino-Czechoslovak trade and economic relations, said the weekly. The signing of the long-term (1986-1990) trade agreement between the two countries will enhance their classical goods exchange and higher forms of cooperation including co-production of spindleless looms in China, it added. The two countries are expected to exchange goods worth nearly 1,000 million Swiss francs this year, it said. [Text] [Beijing XINHUA in English 1445 GMT 23 Jul 85 OW]

HEBEI'S QINHUANGDAO ATTRACTS INVESTMENT--Qinhuangdao, 2 August (XINHUA)--  
Qinhuangdao, Hebei Province, one of 14 Chinese coastal cities granted special status last year has attracted foreign investments valued at 125 million U.S. dollars. Over the past fifteen months, more than 400 business people from 14 countries and regions have come to the city for trade talks. Contracts have so far been signed for 19 joint ventures, co-operative projects and enterprises with sole foreign investment, according to a local official. These projects involve a total of 180 million U.S. dollars of investment, the official added. The city has also signed contracts for 105 domestic projects from 27 provinces and municipalities involving investments of 380 million yuan. One of the key projects is a company producing 5,000 tons of aluminum products a year. [Text] [Beijing XINHUA in English 1308 GMT 2 Aug 85 OW]

CSO: 4020/318

SPECIAL ECONOMIC ZONES

SHENZHEN LAW OFFICE HELPS FOREIGN BUSINESSES

OW011404 Beijing XINHUA in English 1311 GMT 1 Aug 85

[Text] Guangzhou, August 1 (XINHUA)--A glass-covered wooden plaque inscribed "uphold justice" hands in the Shenzhen law office.

It was presented by a Hong Kong businessman in appreciation of the office's help in regaining a 220,000 H.K. dollar investment in Shenzhen, one of China's four special economic zones.

Two Hong Kong businessmen put up the money to build a factory in Shenzhen in 1983. But, one partner seized the other's share by illegal means.

He then turned to the office for legal help. As is a tradition in China, he presented a plaque in gratitude.

The law office was established in 1983 to provide legal services to business involving in economic activities with Hong Kong, Macao and foreign firms in Shenzhen.

It has only seven lawyers but it answered about 1,000 inquiries and handled 49 lawsuits and disputes in the first half of this year, helping litigants avoid a combined economic loss of 3.2 million yuan (renminbi) and 76 million H.K. dollars.

The lawyers hold that only by safeguarding the legitimate rights of litigants, both Chinese and foreign, can respect for Chinese laws be enhanced.

At the end of last year, Audra C. Mhuag [name as received], a businessman from the United States, planned to put up 32.6 million H.K. dollars to buy shares by a bankrupt Hong Kong firm which was invested in the East Lake Hotel in Shenzhen.

But, he was not familiar with Chinese law. So, before signing a transfer contract, he asked the Shenzhen law office for help.

After studying the contract, Zhuang Defeng, the office director, told him that he would benefit from it, and his legitimate rights be safeguarded by Chinese law.

Last April, he put up another 48 million H.K. dollars to expand the hotel. Zhuang Defeng was invited to him as his permanent legal advisor.

The seven lawyers of the office are permanent legal advisors to 36 factories and enterprises in Shenzhen, including seven sino-foreign joint ventures, four enterprises backed solely by foreign investors and two foreign firms that plan to invest in Shenzhen.

Shenzhen now has six law offices with 50 lawyers. Jin Zhenming, director of the Shenzhen Justice Bureau, said the number of lawyers is expected to reach 77 within this year in order to meet the needs of the developing economy in this special economic zone.

The Shenzhen special economic zone was set up in 1979. Up to the end of last March, it had signed 3,505 agreements with Hong Kong, Macao and foreign firms, with a combined investment of 2.4 billion U.S. dollars. Over 380 sino-foreign joint ventures, cooperative projects and enterprises backed solely by foreign investors have been set up. Their output value account for half of the city's total industrial output value.

CSO: 4020/317

SPECIAL ECONOMIC ZONES

SHENZHEN MAYOR REPORTS ON PROGRESS OF ZONE

OW302011 Beijing XINHUA in English 1843 GMT 30 Jul 85

[Text] Shenzhen, 30 July (XINHUA)--"Shenzhen has achieved clear-cut results over the past five years, indicating that the party's policy of setting up Special Economic Zones is perfectly correct," Mayor Liang Xiang said Monday.

Liang was making a report on the progress of the Shenzhen Special Economic Zone over the past five years.

Shenzhen is one of China's four Special Economic Zones. It is located to the south of Guangzhou, capital of Guangdong Province, and adjacent to Hong Kong.

Under the policy of importing advanced technology and equipment from abroad and cooperating with inland areas, the mayor said, Shenzhen, starting from scratch, has developed such industries as electronics, building materials, printing, food processing, light industry, textiles, machinery, metallurgy and chemicals into pillars of the zone's economic advance.

In the first half of this year, the enterprises with imported equipment in the city produced 870 million yuan-worth of products, 2.2 times more than the same period of last year and accounting for 67 percent of the city's total industrial output value, according to the mayor.

Many of the products are sold overseas. The total output value of exported goods of 270 factories with imported facilities accounted for 20 percent of the city's total last year.

Referring to investment in the Special Economic Zones, Liang Xiang said the state is restructuring its economy and cannot appropriate large sums for these zones. But it has given them more autonomy as regards their own revenue and allows them to pursue more flexible economic policies.

Shenzhen's capital construction between 1980 and June 1985 cost a total 4.6 billion yuan, of which foreign investment accounted for 22.5 percent,

bank loans, 36.5 percent, locally-raised funds, 26.6 percent, investment from enterprises linked with inland areas, 11.6 percent, and funds allocated by the state, only 3.8 percent.

Its foreign exchange income and expenditure showed a small surplus last year, the mayor said.

Principal sources of foreign exchange are exports of industrial goods, vegetables, aquatic products and poultry, tourism, acting as an agent to export and import goods for inland provinces, entrepot trade, and selling commercial buildings to overseas Chinese and compatriots in Hong Kong and Macao.

In addition, the mayor said, Shenzhen has made further cooperation with inland provinces over the past few years. Last year saw enterprise linked with inland areas profiting by about 500 million yuan.

More than 100 construction units from other parts of China have obtained more than 1.5 billion yuan over the past five years by erecting buildings in Shenzhen.

However, the mayor conceded that there were minor mistakes in the city's work due to lack of experience and the rise of unexpected problems. He called on cadres in the city to be clear-headed and bold to further promote the city's economy.

CSO: 4020/318

SPECIAL ECONOMIC ZONES

SHENZHEN PROTECTS OVERSEAS INVESTORS' LEGAL RIGHTS

OW030901 Beijing XINHUA in English 0717 GMT 3 Aug 85

[Text] Shenzhen, 3 August (XINHUA)--The future of a printing and dyeing company in the Shenzhen Special Economic Zone (SEZ) aroused the interest of entrepreneurs, lawyers and journalists of Hong Kong and Shenzhen when its main investor, a Hong Kong firm, announced bankruptcy proceedings in September 1983.

The Lloyds Bank Group, first creditor of the bankrupt firm, intended to take over the company according to Hong Kong law.

But the company was under the jurisdiction and protection of the law of the People's Republic of China and obviously not bound by Hong Kong law.

Complicating matters further was the fact that the SEZ had no specific decrees on companies and bankruptcy.

The SEZ government, following Chinese regulations on the Special Economic Zones in Guangdong Province, allowed the company to pay back the loans through transfer of stock.

Two Shenzhen textile companies purchased 55 percent of the shares through public bidding in March last year. They cooperated with five Hong Kong shareholders to establish the Victor Onnard Printing and Dyeing Co Ltd.

The joint venture made a profit of 16.8 million Hong Kong dollars in the first operational year and paid dividends to shareholders in April this year.

Handling the bankrupt printing and dyeing company was only one example of how the SEZ deals with economic disputes according to China's legal principles when the legal system in the SEZ has not yet been formulated.

The practice has protected the legal rights of Chinese and overseas creditors and has also avoided losses from closure of the premises. Even in the six months while the stocks were being transferred, the company did not stop production and reaped a profit of 4.8 million Hong Kong dollars.

The handling of the case won praise in the Hong Kong media. The Lloyds Bank Group sent a representative to extend their thanks to the Shenzhen authorities.

The 327.5-square-kilometer SEZ in Guangdong Province is the first, biggest, most prosperous of the four special zones in China.

With the geographical advantage of bordering Hong Kong, the SEZ has grown into a busy and bustling city with 500 industrial, commercial, tourist and monetary enterprises.

In order to provide a favorable legal environment for overseas investors, the SEZ government has drafted 10 economic decrees covering entry and departure, labor and wages, use of land, commercial housing, external economic contracts, import of technology and registration of enterprises in accordance with the principles of the law of China on Sino-foreign joint ventures and the regulations of Guangdong Province on Special Economic Zones.

The SEZ has signed agreements with overseas businesses involving a total investment of 2.4 billion U.S. dollars from 1979 to March this year. Of the figure, 600 million dollars has already been used.

Zhang Linghan, an official in Shenzhen, said that the SEZ has been entrusted to draft regulations on companies, bankruptcy, mortgages and loans, investments and accounting this year.

When approved by the national or provincial legal authorities, the environment for overseas investors will be further improved, according to Zhang.

The Guangdong Provincial People's Congress decided recently to improve the leadership of legal bodies of the SEZ and give priority to formulation of urgently needed laws and regulations.

CSO: 4020/318



LABOR AND WAGES

TIANJIN STUDENTS WORK DURING SUMMER VACATION

OW310606 Beijing XINHUA in English 1317 GMT 30 Jul 85

["Tianjin Students Roll Sleeves Up"--XINHUA headlines]

[Text] Tianjin, 30 July (XINHUA)--More than 600 students from Tianjin University are working as teachers, translators or workers during the current summer holidays, according to the Municipal Education Bureau.

In addition, nearly 10,000 students from 28 colleges of higher education in Tianjin are providing scientific or technological consultancy services for factories and rural enterprises, or are working as private tutors or in other jobs during holidays and spare time.

This is helping to change the traditional concept that students should depend on their parents before they start full-time jobs.

Liu Bin, a philosophy student at the Nankai University, said: "I feel embarrassed to ask my parents for money."

Liu and his classmates have won a contract to clean the students' dormitories.

Students' services have helped businesses solve several urgent problems. Luo Xunwen, a student of English at Tianjin Foreign Languages Institute, has translated vital technological information for the Tianjin cable plant. As a result, the plant has entered into a long-term agreement with the institute, and about 50 students from the institute now translate scientific information for factories.

The students have also become more aware of the requirements of industry. Students of the Tianjin Fine Arts Institute began studying mechanics, materials and structural sciences after participating in design at Tianjin TV Factory.

Tianjin University has set up a service center in the city offering scientific and technological advice and labor services.

CSO: 4020/319

TRANSPORTATION

HENAN MEETING URGES IMPROVING TRANSPORT CONDITIONS

HK120301 Zhengzhou Henan Provincial Service in Mandarin 1230 GMT 11 Aug 85

[Excerpts] Governor He Zhukang recently presided over an executive meeting of the provincial government to look into communications work in the province. The meeting decided that the stress in this work should be placed on strengthening management and on highway construction. The meeting called on the communications departments to work with the public security and other departments in stepping up efforts to comprehensively solve the road transport problem, get a good grasp of ancillary projects for road widening, and ensure the safe use of highways.

The meeting held: In order to improve the current backward and chaotic state of road transport in Henan, it is first necessary to take a number of measures in management and construction. The departments concerned must strengthen management of road transport, and resolutely implement the spirit of the recent State Council circular on immediately halting random checks, levying of fines, and imposition of fees on the roads. The existing checkpoints must be straightened out and amalgamated. The existing 170 roadblocks in the province must be given a deadline for removal. Trade fair markets that should be removed must be resolutely removed.

CSO: 4006/857-F

TRANSPORTATION

BRIEFS

JILIN-BEIJING AIR ROUTE -- Changzhun, 1 Aug (XINHUA) -- The passenger air route from Jilin City to Beijing was officially opened to traffic today. The route is 1,100 kilometers in length, and the flight time is 2 hours and 10 minutes. Flights are scheduled every Thursday. [Text] [Beijing XINHUA Domestic Service in Chinese 1137 GMT 1 Aug 83 OW]

HANZHOU-XIAN SCHEDULED FLIGHT -- Hangzhou, 16 Jul (XINHUA) -- The Civil Aviation Administration of China has decided to inaugurate a direct, scheduled flight between Hangzhou and Xian every Monday and Wednesday, beginning on 22 July. This will serve as an air bridge for Chinese and foreign tourists wanting to visit the two ancient cities. [Summary] [Beijing XINHUA Domestic Service in Chinese 0031 GMT 16 Jul 85 OW]

CSO: 4006/857

Foreign Economic Affairs

AUTHOR: ZHU Xingqiao [2612 5887 1564]

ORG: World Economics and Politics Institute, Chinese Academy of Social Sciences

TITLE: "Yugoslavia's Experience in Absorbing Foreign Capital"

SOURCE: Beijing SHIJIE JINGJI [WORLD ECONOMY] in Chinese No 5, 10 May 85 pp 17-20

ABSTRACT: In the 1960's, an important problem facing Yugoslavia was how to use modern production technology to upgrade labor productivity. As a developing country, Yugoslavia should import foreign capital and operate joint investment enterprises to absorb and assimilate advanced technology, as well as to solve the capital shortage problem. Yugoslavia's first foreign capital law was promulgated in 1967, and today (after 18 years) the operation is yielding scant results: low foreign capital inflow and few joint investment projects. What is the reason? A very cautious attitude has been consistently displayed in dealing with foreign capital: red tape is everywhere. The fear of foreign exploitation in joint investment led to Yugoslavia's heavy foreign debt of some \$20 billion. Ironically, the high interest rate looms as genuine exploitation while advanced technology and equipment (the aim of importing foreign capital) remain a dream. This is the background for the new foreign investment law promulgated in November 1984 for a much-needed green light to foreign capital. The new law provides the following revisions: foreign majority shareholders in joint enterprises, elimination of profit limitation, lower taxation, more authority to management, and simplifying procedures of contract approval (a yes or no reply is mandatory within 45 days). Some problems still remain even after this revision, such as differences (even contradictions in some cases) among various laws, different profit tax rates in various regions, and obsolete administration systems of foreign exchange. If these problems are not properly solved, the initiative of foreign investors will be affected, thus injuring Yugoslavia's interest.

10424  
CSO: 4011/32

Foreign Trade

AUTHOR: LI Xiaolu [2621 2556 7627]

ORG: World Economics and Politics Institute, Chinese Academy of Social Sciences

TITLE: "Theory of Purchasing Power Parity and the Renminbi Exchange Rate"

SOURCE: Beijing SHIJIE JINGJI [WORLD ECONOMY] in Chinese No 5, 10 May 85  
pp 35-40

ABSTRACT: The Theory of Purchasing Power Parity was proposed by Swedish economist Gustav Cassel in the early 1920's on how to fix a floating exchange rate. However, the theory cannot be considered as a basis for fixing the renminbi exchange rate, because China's economic and price structure as well as foreign trade systems differ quite markedly from those of capitalist countries. Other Western theories also cannot serve as the principle of fixing the exchange rate. China is a developing country; the open door is its long-term policy of economic development. Besides foreign trade, import of foreign capital, international tourism and remittances from overseas Chinese are also related to the foreign exchange rate. The basic principle of China's fixing of the exchange rate should be advantageous to its open door economy and modernization program. Summing up, fixing of the exchange rate should adhere to the three following principles: (1) In order to fix a rational exchange rate, the wide difference between the domestic and international price structure should be narrowed. The forthcoming step-by-step price reform works toward this end. (2) A uniform exchange rate is fair and realistic, facilitating the inflow of funds. (3) The long-term balance of the international settlement of accounts should be upheld to fix the exchange rate. Since the international settlement of accounts consists of trade, non-trade settlement, capital flow, exchange reserve and gold, the balance over a period of 5 or 10 years is a good guideline. A floating exchange rate is visualized, moving up and down to cope with the status of international settlement of accounts together with financial, trading and administrative measures to enable the minimum foreign exchange reserve for the optimizing of the economy as a whole.

10424

CSO: 4011/33

TAIWAN

ARTICLE ON 1ST YEAR OPERATIONS OF TAIWAN'S OFFSHORE BANKS

HK010253 Hong Kong SOUTH CHINA MORNING POST (BUSINESS NEWS Supplement) in  
English 1 Aug 85 p 5

/Article by Nicholas Way/

/Text/ On the surface, Taiwan's offshore banking units (OBUs) have notched up  
an impressive track record in their 1st year of operation.

Begun last year with total assets at 31 July of US\$439 million, now more than  
10 local and overseas banks are operating OBUs with total assets nearing the  
US\$6 billion mark.

That, Finance Ministry officials claim, is a healthy start, although there is  
no attempt to compare the OBUs with those operating in Hong Kong and Singapore,  
where assets in both centers are many times those in Taiwan.

Other problems that confronted the startup of the OBUs are also being solved.

Operators are gaining experience, with courses being run by such overseas banks  
as Citicorp, one of the foreign institutions operating an OBU. The Ministry of  
Finance is also involved in training courses.

And in the early days dealers were sent to the United States and Singapore for  
training.

Telecommunications is improving, although still lagging behind Hong Kong and  
Singapore.

Yet despite these gains foreign bankers remain sceptical about the long-term  
development of the OBUs and even Ministry of Finance officials say it is still  
several years down the track before they are up and running to a degree where  
they are competing with the units in Hong KONG and Singapore.

In this estimate, government officials are not backtracking. A 5-year time  
scale has always been their objective.

Yet today it has become more imperative that this is met.

The government has invested no small degree of political capital in the OBUs, one factor in the equation that Taipei is serious about relaxing the controls governing its financial system.

Yet just at a time when the OBUs should begin to flex their operating muscles as both the foreign and local bank operators develop some expertise, the country has been plunged into its worst financial scandal with the collapse of sections of the Cathay empire.

This has had many adverse spinoffs, but in particular it has introduced a pall of caution by bank management, and particularly among the local institutions.

This has affected the operation of OBUs, already suffering from the fact that senior management is often unsure of their operations and therefore adopts a cautious policy.

As a Finance Ministry official admitted, staff involved in the OBUs often have trouble convincing senior management that credit risks have to be taken.

Or as one foreign banker said, "the local banks play it safe.

"By contrast, the foreign banks, and particularly Bank of America and Citicorp, adopt a far more aggressive stance in the market."

His comments, with which Ministry of Finance officials largely concur, are borne out by government statistics.

Loans to nonbank customers at 31 May totalled a mere US\$135 million, while interbank credit lines--domestic banks, inter-OBUs or foreign banks--amounted to US\$4,902 million.

With securities investments and other assets at US\$150 million it puts total assets at the end of May at US\$5,187 million.

This means that of the total credit portfolio, interbank business accounted for 94 percent.

While this provides the banks with "safe" business, the margins are very small.

A Finance Ministry official said this would continue until staff and senior management, and especially with the local banks, "developed a deeper understanding of the market.

"The use of more sophisticated credit instruments has to be developed, but this will take time."

The Finance Ministry is slowly prodding the local banks to adopt a more aggressive policy, but in the wake of the Cathay scandal this is meeting resistance.

While officials do not think it will affect their 5-year time scale to have the OBUs competitive with their counterparts in the region, foreign bankers are not so sure.

They see little development in the market in the past 12 months, and few optimistic signs this will change in the short-term.

Certainly it seems the lacklustre market is limiting the number of foreign banks wanting to set up OBUs, despite the government's open invitation to do so.

Initially, the government indulged in some gentle arm-twisting to entice some foreign banks into the market--and especially the larger U.S. banks--yet 12 months later there are only about seven foreign banks with units.

While the government says it is satisfied with this number, it has to be measured against the fact there are more than 30 foreign banks in Taiwan.

These banks, many with successful units in Hong Kong and Singapore, are obviously adopting a wait-and-see attitude.

And their final decision will not only be linked to the success of the OBUs, but the government's entire policy of gradually liberalizing the financial system.

And this will place pressure on the government right to the upper echelons of the Kuomintang.

For while the Cathay scandal has indicated the urgent need to both liberalize and reform the system, senior officials are split over how far and how quickly.

How this is resolved will have profound affects on Taiwan's banking system, the role of the foreign banks in it, and the ultimate success of the OBUs.

CSO: 4020/323



TAIWAN

# ECONOMIST OUTLINES WAY AHEAD FOR ECONOMY

OW050313 Taipei CNA in English 0252 GMT 5 Aug 85

/Text/ Taipei, 4 Aug (CNA)--The overall raising of productivity here is the only way for the Republic of China to be more competitive in the international market and create another economic miracle for the country in the future, Chao Yao-tung, chairman of the Council for Economic Planning and Development /CEPD/, said Sunday.

How is the economic situation in the country now? He indicated that "it is much better than in other countries from the statistical point of view; but it is not so good if looked at it from other angles."

Chao explained in his address to the opening ceremony of the Second Annual Productivity Month, which started on 1 August, that according to statistics compiled by the CEPD, the ROC is in a better position than most other countries with U.S. dollar 18 billion in international currency reserves, a 6 percent annual economic growth in the first half of this year, and a less than 2.5 percent unemployment rate.

On the other hand, he noted, the nation's productivity had only an average 8.7 percent annual increase as against the 15.9 increase in average wages during the 1974-1984 period.

The CEPD chairman said the nation's economic performance is one of the best in the world considering its economic growth and unemployment rates. However, he added, the ROC economy will have dim prospects if its productivity maintains a low long-term growth rate.

Chao pointed out that the overall raising of domestic productivity is the only way to keep the ROC-made products competitive in the international market, and that only by doing it at a fast pace, with all the people participating, can the nation create a second economic miracle as it did in the 1960's and 1970's.

CSO: 4020/323

TAIWAN

BRIEFS

PER CAPITA INCREASE--Chung Hsing New Village, Central Taiwan, 28 Jul (CNA)--Taiwan, the national revival bastion of the Republic of China, has become a paradise for the compatriots on the China Mainland, according to statistics of the Taiwan Provincial Government /TPG/. Under the brilliant leadership of the central government and hard work of the people on the island province in the past four decades, the ROC in Taiwan has been developed as one of the most prosperous countries in Asia, only second to Japan, the TPG said. Although the population of Taiwan has increased gradually and reached a figure over two times more than it was 40 years ago, growth rates of this nation's agriculture, commerce and industry are still overtaking the growth rate of population. In 1952, the per capita income in Taiwan stood at NT dollars 1,913 (U.S. dollars 48) only, while in 1984, the figure increased to NT dollars 121,467 (U.S. dollars 3,067), an increase of more than 60 times. The TPG pointed out that the distribution of income and the gap between the rich and the poor were narrowed year by year due to the successful policy of equilibrium of wealth under the three principles of the people. According to the TPG statistics, the high income group's personal income was 5.3 times more than that of the low income group in 1964, but in 1983 the difference fell to 4.3 times, the TPG asserted. /Text/ /Taipei CNA in English 0233 GMT 29 Jul 85/

U.S. QUOTAS ON SHOES--Taipei, 29 Jul (CNA)--The business of footwear producers in the Republic of China on Taiwan would be hurt very severely if the United States Government adopts the proposal by the U.S. International Trade Commission /USITC/ to limit footwear imports, an official with the Board of Foreign Trade /Boft/ said Monday. The USITC has submitted to the White House a proposal to reduce the share of imports in the American footwear market from the current 80 percent to 50 percent by enforcing a proposed global quota system. President Regan is scheduled to make a decision on the proposal by 1 September. The BOFT official urged domestic footwear producers to modernize their production facilities and improve the quality of their products so as to increase the added-value of their products and minimize the damage the USITC proposal could cause. According to official statistics, the United States in 1984 imported 720 million pairs of nonrubber footwear, of which 42.31 percent were from the Republic of China, 16.3 percent from South Korea, and 15.12 percent from Brazil. /Text/ /Taipei CNA in English 0242 GMT 30 Jul 85/

TRADEMARK LAW REVISION--Taipei, 5 Aug (CNA)--The revised trademark law will impose heavier fines on counterfeiters, the Economics Ministry said Monday. The law also provides that those who sell, export and import counterfeited goods will also be charged to make up loss of the companies who own the trademarks. The revised law has been approved by the Executive Yuan and will be sent to the Legislative Yuan for deliberation. According to the revision, owners of the trademarks will be allowed to ask for money compensation ranging between 500 times and 1,500 times the retail price of a single item of the fake goods if the amount of the fake goods caught is under 1,500 pieces. Otherwise, the compensation will be limited to the total value of the goods uncovered. For example, if police units caught a batch of fake Rolex watches which number under 1,500, and their single retail sale price is at NT dollar 1,000, compensation may reach between NT dollar 500,000 and NT dollar 1.5 million. The ministry said, however, the fines will be imposed on those violaters who counterfeit intentionally. As the selling of faked goods encourages counterfeiting, they should be charged to share the responsibility the ministry said. /Text/ /Taipei CNA in English 0237 GMT 6 Aug 85/

BANK RATE DECONTROL PLAN--Taipei, 3 Aug (CNA)--The Executive Yuan approved at its weekly meeting Friday a proposal as submitted by the Financial Ministry on the abolition of the regulations regarding the control of this nation's bank rates. The proposal will be sent to the Legislative Yuan soon for further screening and approval. The lift on the control of bank rates, if finalized, will be a big stride forward towards the liberalization of banking interests in this nation. The regulations, with a total of seven articles specifying the maximum banking rates and other "legalized" interest earning activities in nation, were promulgated in 1947. The Executive Yuan said that after the regulations were abolished, the interest rates in the monetary market and securities market here will still be under the jurisdiction of Art 205 of the Civil Law. If necessary, the Yuan added, the limitation stimulated on the Civil Law will be further lifted by adding some special articles to the Law of the Central Bank of China. /Text/ /Taipei CNA in English 1345 GMT 3 Aug 85/

SERVICE INDUSTRY ECONOMIC ROLE--Taipei 30 Jul (CNA)--The Republic of China's service industry is expected to register an annual 7.5 percent growth in the coming 4 years to become the key player in the nation's economic development. According to a projection by the Council for Economic Planning and Development /CEPD/, the service trade will replace industry as the locomotive of economic development. The CEPD projection forecast that the industry will achieve an annual growth of 6.2 percent. As the service trade leads other trades in growth, CEPD said, it will account for a greater share of the Gross National Product during the 1986-89 period, raising it from the current 42.67 percent to 43.67 percent. Among the service commerce will account for a dominant share of the growth, to be followed by government services transportation and communications, housing service, banking and insurance, and real estate. /Text/ /Taipei CNA in English 0950 GMT 30 Jul 85/

CSO: 4020/323

HONG KONG MEDIA ON CHINA

HOW SEZ'S, INLAND AREAS PROFIT FROM EACH OTHER

Hong Kong JINGJI DAobao [ECONOMIC REPORTER] in Chinese No 21, 27 May 85 pp 20-21

[Article by Liang Wensen [2733 2429 2773]: "The Shenzhen Special Economic Zone and the Mainland Profit Each Other"]

[Text] The Shenzhen Special Economic Zone [SEZ] is well on its way towards becoming a sophisticated commodity economy. This is related to its strategic decision to combine its industrialization with an all-out effort to develop tertiary industries, including commerce and services. This strategy has produced concrete results. Production has been expanding rapidly, commerce and trade have soared and revenues and foreign exchange earnings have also been rising sharply over the past 5 years. From 1979 through 1984, national income rose 5.7-fold, or at an average annual rate of 46 percent; total industrial output value shot up 28-fold, at an average annual rate of 97 percent; and the volume of social retail sales grew 13-fold, which translated into an average annual rate of 70 percent. Revenues also rose 13-fold, at an average annual rate of 70 percent. Foreign exchange earnings increased almost 2.5-fold, for an average annual growth rate of 28 percent. These figures show that through the development of commodity production and commodity exchange, the Shenzhen SEZ has contributed substantially to local revenues and foreign exchange earnings, of which a considerable part comes from the mainland. At the same time, however, through a variety of economic activities and channels, the SEZ has also generated income for the mainland. To put it differently, the SEZ and the mainland make money from each other. This is a situation which needs to be explained theoretically.

That the SEZ and the mainland contribute to each other's earnings is a question involving regional imbalances in the production and use of national income. In other words, it involves the transfer of national income from one region to another. This is a highly complex issue, made even more difficult by the sketchiness of basic statistical data.

The SEZ derives income from the interior mainly through commerce and tourism. Sales to visitors from the interior amount to about 70 percent of total retail volume. Tourism is another income earner, with visitors from the mainland

accounting for about half of all tourists to the zone. Shenzhen also profits from the sale of industrial products to the mainland, which amount to a substantial portion of total sales.

The mainland makes money from the SEZ essentially through the Shenzhen branches of mainland enterprises, including construction companies, industrial and commercial concerns, transportation services, hotels and guest houses. The mainland also derives profits from joint ventures and cooperative enterprises set up jointly with the zone. Moreover, all profits made by such mainland institutions in the zone as banks, customs, posts and telecommunications and railways are turned over to the state.

Other developments and economic activities in the zone also generate handsome earnings for the mainland. For instance, most of the three kinds of materials used by the construction industry in Shenzhen are purchased from the interior at negotiated prices, with the profits accruing to the mainland in the form of price differences. Profits made by enterprises in the zone established by various central ministries and provinces are also turned over to the state.

According to studies by the departments concerned, the mainland generated the following profits for the SEZ from 1979 to 1984: commercial retail sales, 182.53 million yuan; tourism, 30 million yuan; industry, 70.61 million yuan; agriculture, 25.16 million yuan; and construction and installations, 3 million yuan (the SEZ lost money in this area until 1984 when it turned in its first profit). These five categories of income amounted to 313 million yuan. During the same period, the SEZ generated the following profits for the mainland: commerce and commodities, 130.53 million yuan (incomplete data); industry, 70.78 million yuan; agriculture, 60.74 million yuan; construction and installations, 120 million yuan; transportation, 40.12 million yuan; banking and finance, 59.05 million yuan, and 168.69 million yuan from the sale of three major construction materials at negotiated prices. These five [as published] sectors generated a total profit of 519.36 million yuan.

Mainland shoppers are attracted to the zone mainly by its high-quality but inexpensive products, inexpensive because, first, productivity is higher in the zone, and second, imported equipment and raw materials are tax-exempt.

First, a word about the second reason. Because the state adopts a preferential policy in the zone by exempting imports from tariffs, products made in the zone are cheaper than those in the mainland. This price difference naturally forms a part of the profit that the zone makes from the mainland. In this respect, the special position of the SEZ makes it inevitable that the zone channels money from the mainland into its own coffers.

About the first reason, namely, higher productivity in the SEZ: If an enterprise in the zone takes less labor input to make a product than the socially necessary labor, it is only right that this difference be reflected in the price. The greater the difference, the higher the profit accruing to the enterprise.

Profits derived from commerce and trade, like those from industrial and commercial production, are proper. This is because commerce, trade and services are also productive labor. The arranging, classification and packaging of commodities as well as their delivery into consumers' hands are productive labor. So are hotels, catering services, transportation, posts and telecommunications. All of them create value.

In their production activities, all sectors in the zone (including commerce, agriculture and industry) take pains to adopt new technology, improve management operations, increase labor productivity and cut down on labor consumption so as to make the individual value of a product lower than the social value and make a profit. This is the law of value at work, propelling enterprises to be more mindful of economic results and to strive for the highest outputs with the least inputs. The higher its efficiency, the more profitable the enterprise.

Developing its commodity economy under the leadership of the socialist state, the zone conducts commodity exchanges under the principle of exchange of equal values. In theory, commodity exchanges should be beneficial to both parties involved. One party obtains a use value to satisfy its needs. The other obtains a certain amount of currency value which can then be used in exchange for the commodity it needs. In this way, both parties derive equal value from the transaction.

Commodity exchanges, of course, include exchanges of unequal values as well as exchanges of equal values. This should be explained in detail. Exchanges of unequal values take the form of profiteering, speculation, jerking up prices --attempts to reap huge profits through circulation. "Hefty profits" of this nature are not normal. The government of the zone has always cracked down severely on such illegal activities as fraudulent foreign exchange transactions and reselling at a profit, which interfere with the market. Some people consider these activities beneficial to the development of the zone. They are totally mistaken.

It must be pointed out that it is also a vital strategic decision by the state to allow a particular region, a particular enterprise, and a particular individual to become wealthy ahead of others. Its purpose is to encourage regions, enterprises and individuals "to excel, to do the best they can." The harder one works, the more one earns. When a few regions or enterprises or individuals become wealthy through hard work, their example will mobilize the entire society to do likewise. As a follower of this policy, the Shenzhen SEZ gives priority to the tertiary industries, goes all out to develop its commodity economy and applies the law of value to vitalize the economy. In this respect, it has achieved fairly good results and made money from the mainland. This is legitimate. The present situation will continue. Actually, if the zone does not earn the profits, they will only be pocketed by Hong Kong and overseas merchants. It is normal and logical for the SEZ and the mainland to make money from each other since both profit from it. The SEZ nurtures its growth with profits derived from the mainland, while the mainland also benefits from its economic intercourse with the SEZ.

To put it differently, the SEZ has received massive support from the mainland in adopting the strategy of importing technology and capital abroad and forging economic links with the mainland. Without such support, the SEZ would not be where it is today. By late 1984, for instance, the mainland had supplied Shenzhen with about one-sixth of its developmental funds; 97 percent of technical experts in the Shenzhen SEZ came from the mainland, as did 92 percent of its contingent of workers; 51 percent of the steel and 55 percent of the cement used in the zone were provided by the mainland; and about 70 percent of the commodities in the Shenzhen market were produced in the mainland. To be really effective, Shenzhen must combine imported technology, foreign funds and foreign trade with the capital, resources and technology of the mainland. The SEZ must do more than solve the employment problems of more than 100,000 young people waiting for jobs. It must also earn foreign exchange for the state, promote the hinterland's economic and technological development and fulfill its key role as the "four windows" and thereby stimulate the mainland's socialist modernization. In this sense, the SEZ benefits the development of the mainland. If an SEZ does little or no good to the mainland and the state, or if it has to be publicly subsidized, it will be a burden on the state. In that case, there is no point in setting up a special economic zone as it can neither spur on the hinterland's economic development nor promote China's socialist modernization. To say all this is not to deny the vast significance of the support of the mainland for the SEZ. Not at all. But it does mean that we must examine the issue correctly and dialectically.

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HONG KONG MEDIA ON CHINA

DEVELOPMENT STRATEGY FOR SOUTHERN FUJIAN COASTAL ZONE OUTLINED

Hong Kong JINGJI DAobao [ECONOMIC REPORTER] in Chinese No 19, 13 May 85 p 30

[Article by Gu Ming [7357 6900]: "Economic Development Zone in Southern Fujian Adopts a Strategic Plan"]

[Text] Eleven counties (municipalities) in the Jiamen-Zhangzhou-Quanzhou triangle in southern Fujian, including Zhangzhou, Quanzhou, Longhai, Zhangnan, Dongshan, Huian, Nanan, Jinjiang, Anxi, Yongchun and Tongan, have recently been designated as an open coastal economic zone.

Situated in southeastern Fujian, the region is well known as the place of origin of numerous overseas Chinese and has longstanding ties and extensive contacts with the outside world. Overseas Chinese and their descendants make up about 80 percent of the population of the entire province. With a coastline indented with bays and coves and dotted with islands, the region is easily accessible by land, sea and air. Both Xiamen Harbor and Quanzhou's Houzhu Harbor are fine, deep-water harbors. The region is richly endowed with marine and land resources. The most important part of its economy is cash crops, which favors the development of cultivation, aquaculture and rural and small town enterprises. It has a fairly solid industrial base and a respectable technical standard. Total industrial and agricultural output value has already reached 6.4 billion yuan, 34 percent of the provincial total. The region's external economic activities are also booming and it has captured about two-thirds of the enterprises set up in Fujian by overseas Chinese and foreign businessmen. Processing operations with foreign materials or to foreign specifications, and compensatory trade are concentrated here and the value of regional exports makes up about 68 percent of all provincial exports. This region has a good supply of experts, easy access to information and a rather high scientific and educational standard. With its scenic beauty, it also has abundant tourist potential.

The development plan for the economic zone along the coast of southern Fujian embraces "trade, industry and agriculture" and stresses the development of exports to improve its international competitiveness. Its strategic proposals and measures are:



1. Gradually readjust agriculture's internal structure by expanding the proportionate importance of cash crops, developing aquaculture, cultivation and rural and small town enterprises and increasing the proportionate importance of forestry, animal husbandry, sideline production and fishery.

2. Emphasize the importation of technology, and complete the technical modernization of existing state-run enterprises by 1990 so that the technical and managerial standards of the overwhelming majority of them will reach those of the 1970's and early and mid 1980's. Agriculture and rural and small town enterprises must also adopt advanced technology and develop both traditional and modern products to compete effectively in the international market.

3. Develop new mainstay industries such as cement, glass, industrial ceramics, ship demolition, steel rolling, textiles, apparel, marine chemical engineering, precision chemical engineering, biochemical industries and mineral products suitable for export, particularly nonmetallic mineral ores like kaolin.

4. Develop new technology, and accelerate the training of a wide range of experts, particularly those in foreign economic activities and trade.

5. Raise capital through various channels and take positive measures to attract overseas Chinese investors. Tourism, foreign contracting and labor cooperation must also be developed.

6. Further strengthen and develop the tertiary sector, set up a good infrastructure, continue to improve the investment environment, and improve business practices and service standards.

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HONG KONG MEDIA ON CHINA

NANTONG'S WORK IN INFRASTRUCTURE SINCE BECOMING OPEN CITY

Hong Kong JINGJI DAOBAO [ECONOMIC REPORTER] in Chinese No 22, 3 Jun 85 p 29

[Article by Lu Chunkang [7120 4783 1660]: "Nantong Strives To Improve Infrastructure"]

[Text] Since its designation as an open city, Nantong has been working hard to improve its infrastructural facilities across the board, from communications and water and electricity supplies to hotels and tourist services, in order to create an attractive investment environment.

--Communications: Nantong borders on the sea and is a key communications hub on the coast of Jiangsu Province. To improve communications, Nantong has opened a ferry service to Shazhou and set up a regular hovercraft service to Shanghai. It now takes only a little over 3 hours to drive to Shanghai via Shazhou by taking advantage of these sea links, reducing by half the original travelling time. The hovercraft route between Nantong and Shanghai, operated jointly by the China Hovercraft Technology Development Corporation and the Nantong Hovercraft Shipping Company, went into service on 20 March this year. Plying the route are two China-designed hovercraft, the "Jinxiang" [3160 5046] and the "Shenxiang" [3947 5046], which seat 80 and 170 people respectively. The trip takes only 2 hours, shortening by two-thirds the amount of time it used to take to travel from Shanghai to Nantong. Efforts to improve land and sea communications have been accompanied by an all-out drive to reopen and expand Xindong Airport.

--Telecommunications: First, developing microwave communications. A microwave communications transmission tower was completed late last year, increasing by 15-fold the original capacity of the communications circuit between Nantong and Shanghai, and plans are also afoot to develop microwave communications between Nantong and such cities as Nanjing and Wuxi. Second, increasing the capacity of the municipal telephone system. A thousand gates have been added to the original generator in the first quarter of 1985. A 10,000-subscriber database programmed switchboard and long distance exchange equipment with 400 lines will be imported later this year. Third, putting up a telecommunications building. Construction has begun on this modern integrated communications building on a 7,500-sq meter site, and workers are now rushing to finish it before year end.

--Hotels and tourism: In the past, there was only one guest house in Nantong that catered to foreign tourists, the Wenfeng Hotel. In a concerted move involving various economic sectors and trades, Nantong has been speeding up hotel construction. Its first step was to modernize and expand the Wenfeng Hotel and Youfei Hotel. Phase 2 of the renovation of Wenfeng was completed ahead of schedule and the hotel is now open for business. Phase 1 of the renovation of Youfei, undertaken by the Hong Kong Leshi Construction Co, is scheduled for completion by this June when it will become one of the city's first-class hotels. Throughout last winter and spring, construction began on a string of new hotels, including the 16-story Changan Hotel, a complex that will include offices and various service establishments; the Zhonghuayuan Hotel, which emphasizes the ethnic touch; and the Nanshan and Hongqiao hotels, each a distinctive hotel in its own way. The Hong Kong Sun Hung Kai (China) Co Ltd., has submitted a plan to Nantong titled "A Comprehensive Plan for the Development of Tourist Services Using Foreign and Chinese Capital." Under this plan, the company and Nantong will jointly build a restaurant and other facilities. Phase 1, a \$21 million project, includes a restaurant, a shopping mall and a shopping center and will occupy a total area of 45,000 sq meters. A contract for this project has been signed between the Hong Kong company and the Nantong Jianghai Economic Development Co. Construction is scheduled to begin in the latter part of 1985.

Turning to tourism, Nantong's Langshan is one of eight famous mountains in Chinese Buddhism as well as a well-known scenic spot in Jiangsu. To meet the needs of the open door policy, the city has revised the development plan of the Langshan scenic area by adding a botanical garden, a purple staircase, a beach on the Bin Jiang, a playground with mechanized recreational facilities, a "marine world," and a resort village. When the plan is completed, the Langshan resort will be a match for the Taihu scenic area. Encircled by the ancient Hao He, Nantong has long been famous as a scenic area, a land of lakes and rivers. Nantong proposes to make use of Hao He's natural beauty, enhancing it with decorative trees and flowers, to create five scenic areas and eight spectacular sights.

--Water and electricity: Nantong's existing 4 waterworks at present satisfy the needs of both industrial and domestic consumers. To speed up development, plans are on the drawing board to build a waterworks with a daily capacity of 300,000 tons to the west of the Fumin Harbor Economic and Technical Development Zone.

Concerning electricity, the current generating capacity of the Tiansheng Thermal Power Plant is 324,000 kw. To ensure electricity requirements are met when the city is opened further to the world, the plant is planning to double the generating capacity of two generating sets from 350,000 kw to 700,000 kw, a project which is being given priority. In addition, a small 50,000 kw-thermal power plant will be built in the Fumin Harbor Economic and Technical Development Zone. Everything is being done to begin work this year so that it can be completed during 1986.

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HONG KONG MEDIA ON CHINA

PRC DEVELOPMENT WILL NOT THREATEN OTHERS' ECONOMIES

Hong Kong TA KUNG PAO in Chinese 4 Jun 85 p 4

[Article: "China's Tightening of Foreign Exchange Was Only Temporary; Wang Deyan Speaks at International Financial Conference; Foreign Exchange Last Year Totalled Nearly \$50 Billion"]

[Excerpt] Speaking at an international financial conference in Hong Kong yesterday, Wang Deyan [3769 1795 5888], vice president of the Bank of China, said that China's decision to tighten foreign exchange last quarter was temporary and that his country would continue to develop import and export trade and enter into even more cooperative enterprises. He claimed that China's expanding economy and trade will not constitute a competitive threat to other countries or regions.

Wang Deyan emphasized that China needs the world to develop its economy, and vice-versa. By expanding foreign trade, China is promoting the development of the world market. Many of China's foreign friends may be concerned that it will become their competitor in the world markets. This is an unwarranted worry. China is a huge market. The development of foreign trade speeds up its economic development and helps satisfy the material and spiritual needs of its people. In the long run, the success of its four modernizations requires key projects in energy, transportation and communications as well as modernizing its existing myriad enterprises. Herein lie many opportunities for wide-ranging cooperation between China and the world in such areas as capital, technology, equipment and training. China welcomes foreign investors and bankers to come and compete in price, quality, service, banking and especially technology transfer.

Wang revealed that owing to the development of foreign trade, the Bank of China has been expanding an array of banking services rapidly in recent years and has strengthened its cash flow ability. As of late 1984, its total assets had increased from 38.7 billion yuan in 1978 to 200.3 billion yuan. Its offices in China increased from 58 to 261, while its offices overseas increased from 184 to 286. It maintains a commercial client relationship with 1,185 banks in 150 countries and regions.

Wang Deyan said that the bank's credit policy has nurtured the nation's export and import. The value of business capital loans it extended to foreign trade

organizations in 1984 more than doubled that of 1978. The Bank of China has established interbank depository relations with 220 major banks in the world and signed \$142 billion worth of buyer credit agreements with Great Britain, France, Italy, Canada, Belgium, Norway, Sweden and Australia.

Wang Deyan also disclosed that the value of China's foreign trade increased from \$20.6 billion in 1978 to \$40.3 billion in 1981 and \$40.99 billion in 1984. China's exports accounted for 1.23 percent of the world's total exports, up from 0.75 percent in 1978, while its imports also improved its share from 0.87 percent in 1978 to 1.44 percent. China has been expanding its economic relations with over 160 countries and regions, and its major trading partners are Japan, the United States, the European Economic Community [EEC] and Hong Kong. Of the \$50 billion worth of business China did with the world in 1984, Japan accounted for \$13 billion, Hong Kong \$8 billion, the United States \$6 billion, and the EEC \$5 billion.

Wang Deyan addressed the second session on the first day of the international financial conference, "The People's Republic of China--Regional Prospects, A New Emerging Force in World Trade and Expanding Investment Opportunities." It was chaired by Sorby, chairman of the Hongkong and Shanghai Banking Corp. Discussing China's present foreign exchange position at a press conference after the session, Sorby described the current situation as very strong. He said, "I am pleased to see that China is gradually opening up its banking system and financial market. This is a significant move. By first allowing foreign banks to set up representative offices and then letting the Hongkong Bank maintain its branch in Shanghai and certain other banks to upgrade their operations to branch, China has increased the profit potential of foreign banks in the country. There are good prospects that a full range of banking services may be established. We will consider opening branches in China and continue to develop all kinds of services cautiously."

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HONG KONG MEDIA ON CHINA

BRIEFS

CHINA'S FOREIGN EXCHANGE INCOME--Jin Xin [6855 9515], director of the General Tax Bureau, revealed today that China's net foreign exchange income amounts to about \$30 billion. He made the disclosure at a luncheon to deny allegations that the recently promulgated "Tax Law Governing the Permanent Organizations of Foreign Enterprises in China" was a ploy to milk foreign enterprises of foreign exchange. Jin Xin said that the projected income tax payable by the permanent organizations of foreign enterprises is a drop in the ocean compared to China's current foreign exchange earnings. He also said that China's \$30 billion foreign exchange comes from both trade and nontrade sources. [Text] [Hong Kong WEN WEI PO in Chinese 25 May 85 p 3] 12581

CSO: 4006/687

HONG KONG ECONOMIC TRENDS

HONG KONG JUNE DOMESTIC EXPORTS 11.4 PERCENT LOWER THAN IN 1984

HK260501 Hong Kong HONG KONG STANDARD (BUSINESS STANDARD SUPPLEMENT) in English 26 Jul 85 p 1

[Text] The slowdown in the U.S. economy and the relative strength of the Hong Kong dollar have pulled down the value of the territory's domestic exports by 11.4 percent to \$10,956 million in June from \$12,366 million in same period last year.

According to provisional figures published yesterday by the Census and Statistics Department, the decline resulted in the total exports for the month increasing by a measly 0.9 percent to \$19,297 million, despite a strong 23.4 percent growth to \$8,341 million recorded for re-exports.

In contrast, imports rose faster at 2 percent to \$19,758 million, yielding a deficit of \$461 million.

Thus, the visible trade gap (the proportion of the value of imports not covered by the value of total exports) widened to 2 percent in June this year, against 1 percent in June 1984.

However, compared with last month's figures, domestic exports increased by 1.3 percent in June to \$10,956 million while re-exports fell by 10.6 percent to \$8,341 million. Total exports were down by 4.2 percent to \$20,144 million in the month.

For the first half of 1985, Hong Kong's domestic exports fell 3.6 percent to \$60,408 million, against \$62,641 million in the comparable period a year ago.

Re-exports surged by 41.4 percent to \$52,642 million from \$37,231 million last year.

This put total exports during the six-month period at \$113,050 million, up 13.2 percent from its 1984 level of \$99,872 million.

The expansion was bigger than imports' 6.8 percent rise to \$112,772 million, resulting in a surplus of \$278 million in the first half of 1985, against a deficit of \$5,682 million in the same period last year.

Meanwhile, a submission prepared by the Trade Department to the U.S. authorities stressed the importance of the Generalised System of Preferences (GSP) scheme to Hong Kong's economic development and well-being.

It said the good trade practices maintained by Hong Kong represent the full extent of the desired beneficiary country practices stipulated in the Trade and Tariff Act of 1984.

"Hong Kong should thus continue to be entitled to the full benefits of a beneficiary country under the U.S. GSP," the submission said.

In 1984, Hong Kong imported U.S. \$3.1 billion worth of goods from the U.S. -- all free of import duty.

However, only U.S. \$1.3 billion worth of imports in the other direction, or 16.1 percent of the total, entered the U.S. from Hong Kong free of duty under GSP.

The submission said Hong Kong adheres strictly to the discipline of the world trading system, in particular the Generalised Agreement on Tariffs and Trade (GATT).

It pointed out that economic planning, except in the very broadest sense, is not practised by the government which sees its major role as to provide a suitable and stable framework for commerce and industry to function efficiently and effectively with a minimum of interference.

The submission said Hong Kong provides a base for over 800 American firms, not to mention the estimated 14,000 American citizens living in the territory.

The U.S. is the largest source of overseas investment in Hong Kong's manufacturing sector, accounting for 54 percent of the total.

"Hong Kong is faithful to liberal economic policies of free enterprise and free trade," said the submission.

It emphasized that Hong Kong has no controls on imports, exports and reexports other than those arising from international obligations and those required for health, safety or security reasons.

"Hong Kong does not have any trade-distorting investment practices or policies," noted the submission.

It added: "Free market influences predominate in Hong Kong and the government's role in this area is strictly limited. There is no central direction given to any of Hong Kong's industry, other than efforts to encourage Hong Kong industry to diversify from its heavy reliance on the textile sector."



HONG KONG ECONOMIC TRENDS

TRANSITIONAL PERIOD FOR HONG KONG PROJECTED

Hong Kong JINGJI DAOBAO [ECONOMIC REPORTER] in Chinese No 23, 10 Jun 85 pp 5-7

[Article by Gu Jinliang [0657 0093 5328]: "Predicting Hong Kong's Economy in the Transitional Period, Based on the Present Situation"]

[Text]

I

On 27 May of this year, the Chinese and British governments exchanged instruments of ratification of the joint declaration on Hong Kong's future, which took effect immediately. What will happen to Hong Kong's economy during the transitional period from 27 May 1985 to 1 July 1997, when China resumes its sovereignty over Hong Kong? This question is of interest to concerned individuals in many countries and regions as well as the people of Hong Kong. So it is perhaps not irrelevant that we try to get a clear idea of Hong Kong's present economic situation and forecast its future course of development in the transitional period.

The Hong Kong economy took a rough beating as negotiations dragged on for almost 2 years. Over the past 6 months or more, however, it has changed markedly for the better. The once precarious Hong Kong dollar has firmed up, rising from a low of 57.2 in the currency exchange index on 24 September 1983 to a steady 75 and above. Real estate has emerged from its doldrums and is now thriving. The stock exchange has shed its former nervousness and bounced back to life, with the Hang Seng Index bursting through the psychological barrier of 1600 recently from 760 in July 1984, a historic high since 1 September 1981. Exports and imports have also registered significant gains. Its visible trade "deficit" for 1984 was the smallest ever recorded since World War II.<sup>1</sup> There has been an influx of capital, including a flurry of substantial long-term investments, injecting a dose of vitality into every economic sector. This picture of economic robustness was hardly imaginable a year ago.

What has caused such spectacular changes in Hong Kong's economy? Obviously the only event in the past 6 months or so which possibly could have had such a decisive impact was the signing of the joint declaration on Hong Kong's future by the Chinese and British governments. Actually, even before the signing, Chinese leaders have reiterated for months that Hong Kong's existing social and economic systems and lifestyle would remain unchanged for the next 50

years and that Hong Kong would constitute a special administrative region to be run by local people. Subsequently, senior officials on both sides gradually revealed the main points in their accord through a variety of channels. The net result is that the gloom and doom that once surrounded Hong Kong began to slowly disappear. Looking back, we can see the importance with which the Hong Kong people regard the historic day of 26 September 1984 when the "joint declaration" was initialled and published. Anxiously and impatiently they waited for the document to be initialled so that they could study it. The "joint declaration" provides a practical and reliable guarantee for Hong Kong's long-term stability and prosperity. It brightens up Hong Kong's future and boosts its people's confidence. It revives investors' interest in Hong Kong and turns its economy around with dramatic results for all to see.

## II

Based on Hong Kong's present economic situation, we may expect the following trends to emerge in the transitional period:

### A. Closer economic ties with the interior.

As a matter of fact, this trend has already appeared because of China's policy to open up the country. Take trade, for instance. Bilateral trade between the mainland and Hong Kong has soared in recent years. In 1979, bilateral trade reached HK\$17.148 billion, up 57 percent over 1978. It climbed a further 65 percent in 1980, amounting to HK\$28.195 billion. In 1981, China replaced Japan as Hong Kong's second largest trading partner. In 1984, bilateral trade grew 55 percent over 1983, hitting HK\$95.1 billion. From 1978 through 1984, China-Hong Kong trade expanded 5-fold, surpassing not only the growth rate of Hong Kong's overall external trade but also the increase in its trade with any other overseas market. Such a spectacular increase is neither necessarily normal nor sustainable. (During the first quarter of 1985, for instance, Chinese exports to Hong Kong dropped to HK\$12.095 billion, a decline of 3.4 percent compared to the same period last year. At the same time, Japan edged out China as the largest supplier of Hong Kong imports.) But as China's "four modernizations" goes into full gear, it will need to import a full range of advanced equipment, spare parts, components and raw materials. Also, as the Chinese people's standard of living improves, they will rely on Hong Kong to transship or supply some of the needed durable consumer goods. It is also certain that as both economies develop, we will see an increase in the amount of products and materials that Hong Kong traditionally obtains from the mainland, which are so essential to the people's daily life. Note that China-Hong Kong trade will grow not only quantitatively but also in a way that will eliminate its present lopsidedness. Before the mainland adopted the open door policy, bilateral trade consisted essentially of Hong Kong imports from China; Chinese imports from Hong Kong were minuscule. Today, bilateral trade increasingly becomes two-way traffic. From 1980 through 1984, for instance, Hong Kong exports to the mainland rose to HK\$11.2836 billion from HK\$1.605 billion, a 7-fold increase. Meanwhile, Chinese exports to Hong Kong increased more than 250 percent, from HK\$21.948 billion to HK\$55.753 billion. Clearly this trend is more favorable to Hong Kong.

Closer links are being forged in investments and finance as well as trade. Since neither China nor Hong Kong collects separate statistics in these areas, we can only glean an idea from other statistics and estimates. In the 6 years since opening up to the world, China has absorbed \$4 billion in direct overseas (including Hong Kong and Macao) investments, of which 60 percent are estimated to have come from Hong Kong. In some special economic zones, the proportion is even higher. Of the \$450 million foreign funds which have found their way into Shenzhen, for instance, 90 percent came from Hong Kong. Because China-Hong Kong relations make up an intricate complex network and Hong Kong entrepreneurs are adroit business operators, Hong Kong's investments in the mainland are as wide-ranging as they are diverse. Apart from a small number of wholly-owned enterprises, there are joint ventures, cooperative enterprises, concerns which process goods with foreign materials or to foreign specifications, assembling plants, compensatory trade and so on. An investor decides the best form his enterprise should take in light of the circumstances of the case and his strengths and weaknesses. But the general tendency is towards closer and more extensive cooperation.

China's investments in Hong Kong have also expanded substantially in recent years with reports suggesting that it has established over 60 industrial and trade enterprises and joint ventures in Hong Kong, involving a total of \$5 billion in direct investments.<sup>2</sup> Professor Y. K. Jao of the Economics Department at the University of Hong Kong said, "Chinese investments in Hong Kong since 1980 have exceeded Hong Kong's investments in China. In 1982, the Hong Kong economy suffered a case of jitters as a result of the 1997 question, which prompted China to pump money into it in order to maintain its stability. This is a turning point which has brought Hong Kong and China even closer together economically."<sup>3</sup> Indeed, Chinese investments have not only strengthened bilateral economic ties but also powerfully stimulated Hong Kong's development and promoted its stability and prosperity. The Bank of China Group, for instance, makes loans to local industries as well as helps Hong Kong businesses invest in the mainland. In 1984, the group extended loans totalling HK\$1.8 billion to Hong Kong industries, up 82 percent over 1983. Simultaneously, it lent over HK\$4 billion to Hong Kong and Macao firms investing in the mainland, a rise of 77 percent over a year ago.

Hong Kong is a vital economic link between China and the world, a conduit for the exchange and circulation of economic and technical information as well as a center for raising capital and a venue for exhibitions, trade shows, investment negotiations and other economic activities. In all these areas, China-Hong Kong economic relations are becoming more intimate by the day.

B. Hong Kong's international economic ties will develop in breadth and depth.

First, Hong Kong will become a highly popular place in which to invest. Because of the access it provides to China and its own attractive investment environment and because it is one of the places in the world where a businessman can get the best return on his investment, the signing of the "joint declaration" has been followed by a rush among firms in many countries to invest in it, and many more are planning to do so. Capital from Southeast Asia has been flooding into Hong Kong since last year as consortia in Malaysia, Singapore, Indonesia, Thailand and others in the region poured their

money into publicly traded companies, investment companies, factories, trading companies, banks, shipping and real estate. The battle between Qiu Debo [6726 1795 2328] and Y.K. Pao to take over Wheelock and Co, the bid by Feng Long to buy the Hong Kong Industrial and Commercial Bank, Ltd, and a similar attempt by a Singapore-Malaysia group led by the Quek family to acquire Lixing Development Co Ltd, all made headline news for awhile. An Industry Department spokesman disclosed last April that it has been approached by 500 overseas companies with inquiries about setting up plants or proposals for industrial cooperation and that 27 of them have decided to invest in Hong Kong within the next 12 to 18 months. Statistics released by the department show that from 1981 through 1984, industrial investments in Hong Kong by overseas firms increased 63 percent from HK\$7.013 billion to HK\$11.448 billion, a trend that is expected to intensify in the future.

Hong Kong's position as the financial center of Asia and the Pacific region will strengthen too. Even as negotiations cast a shadow over its future, banking and finance continued to make headway. Data published in February 1985 show that 277 overseas banks from 48 countries and regions have established in Hong Kong a total of 106 branches, 6 subsidiaries and affiliated companies, 187 deposit-taking companies and 117 representative offices. In addition, 49 non-banking institutions from 21 countries and regions have established 44 deposit-taking companies here. On the other hand, 14 Hong Kong banks have set up 170 branches and 13 representative offices in 33 countries and regions while 14 deposit-taking companies have opened 10 branches and 14 representative offices in 11 countries.

In 1982, off-shore lending by financial concerns in Hong Kong amounted to HK\$103.243 billion, growing moderately to HK\$134.384 billion and HK\$147.238 billion in 1983 and 1984 respectively. However, as the question of Hong Kong's future was resolved satisfactorily and the economy continues to develop, we can expect Hong Kong to further enhance its position as a financial and banking center and boost its international services as a gold and foreign exchange market, a place where international consortia put together loans, a key stock market in Asia and the Pacific region, and as an investment funds management center.

Apart from international finance and banking, Hong Kong will continue to strengthen its position in international trade, shipping, tourism, information and textiles manufacturing, all of which took shape during Hong Kong's formative phase. At a time when the center of the world economy is gradually shifting towards the Pacific and countries and regions in the western Pacific rim are enjoying rapid economic growth, Hong Kong's role in the international economic system will become increasingly important as a result of its superb geographical conditions. And the signing of the "joint declaration" by China and Britain will certainly intensify its position, not weaken it. It is entirely in line with the self-interests of Britain, China and Hong Kong to consolidate and develop Hong Kong's existing international position and connections during the transitional period. The "joint declaration" makes it clear that after China resumes sovereignty over Hong Kong, the Hong Kong special administrative region will remain a free port with its own tariff system and be able to maintain its status as an international financial center. Its foreign exchange, gold, stock and commodities markets will

continue to function, the free movement of capital will be allowed and the Hong Kong dollar will continue to circulate and be freely traded. It will also be allowed to maintain and develop economic and cultural relations independently with other nations, regions and international organizations and enter into agreements. These provisions are an effective guarantee of Hong Kong's position and will do much to preserve its economic prosperity and social stability during the transitional period. It must be pointed out that after the "joint declaration" went into effect, a Chinese-Britain liaison group was formed to draw up measures to ensure "continued participation by the Hong Kong special administrative region in the General Agreements on Tariffs and Trade, the Multifiber Agreement and other international arrangements," to "ensure the applicability to Hong Kong of certain international rights and obligations" and to "assist the special administrative region of Hong Kong to maintain and develop economic and cultural relations with other nations, regions and international organizations and to conclude agreements regarding these nations." It must be noted that Chinese-British economic, political, cultural and trade relations have been developing very smoothly. It can be foreseen that with Britain and China acting in unison in various ways in preparation for 1997, Hong Kong's international economic position will more than hold its own in the transitional position.

#### C. Hong Kong's industrial structure will undergo appropriate adjustments.

As far as manufacturing industries are concerned, even while it seeks to diversify, Hong Kong must make a special effort to develop capital (technology)-intensive industries. As we all know, Hong Kong's manufacturing sector right now is dominated by processing, labor-intensive and export-oriented industries. As local wages go up and other countries (regions) become more competitive exporters, coupled with the rise of trade protectionism, Hong Kong's manufacturing industries stand to lose ground if it fails to adjust accordingly. As we mentioned earlier, both before and after the initialling of the "joint declaration," there has been a spurt of foreign investment in Hong Kong, particularly in manufacturing industries; foreign trade picked up steadily and economic ties with the mainland became closer by the day. All this bodes well for readjusting, improving and developing the manufacturing sector. That Hong Kong should take the high-tech road under the impact of the new technological revolution both complies with objective needs and provides a practical way out of its difficulties. In this respect, the "active non-intervention" policy of the Hong Kong British government will have a major influence on the continued growth of and structural adjustment in the manufacturing sector. So rarely does the government interfere in Hong Kong industries that they are free to make decisions, operate and compete on their own. They have been very adaptive to changes in the international market and are ever ready to modify product variety and design, which explains why they have kept their dynamism alive. On the other hand, the Hong Kong British Government has been instrumental in creating the necessary environment through controls and regulatory devices on the macroeconomic level, as by providing energy, water, usable land, employment, technical training, market development, export credit insurance and technical development. It has also been supportive of manufacturing industries by developing finance, shipping, information, the infrastructure and by improving international trading conditions. Recently, in particular, the Hong Kong British Government has

been vigorously improving Hong Kong's public facilities and hence its investment environment. This is a boon not only to the manufacturing industries, but also to the entire economy. The Hong Kong British Government is expected to keep up its good work in this regard during the transitional period. However, to echo a point often made by local industrialists and experts, the support and assistance provided by the Hong Kong British Government for local industries is woefully inadequate compared to what governments in Singapore, South Korea and Taiwan Province have done to nurture their embryonic industries. Neither policy nor financial assistance is forthcoming from the Hong Kong British Government to local fledgling industries and those which are in considerable difficulty. To the Hong Kong British Government, free enterprise and government assistance and support are totally mutually exclusive. The result is that Hong Kong manufacturing industries are losing ground in international competition and are actually falling behind other developing nations and regions in some fields. Also, high-tech industries require massive investments in research and development, which are clearly beyond the means of private enterprise. It seems that if the industrial policy of the Hong Kong British Government can make the necessary changes, the manufacturing sector can look forward to a brighter future during the transitional stage. Closer integration and coordination between Hong Kong's manufacturing industries and China's coastal cities and industrial centers will also boost Hong Kong's R & D and promote its high-tech industries.

Admittedly, although Hong Kong's manufacturing industries are aiming for diversification, objective conditions are such that Hong Kong cannot and, indeed, need not, develop a full spectrum of industries. For the economy as a whole, comprehensiveness is an even more remote possibility. Prospects for primary industries, for instance, appear fairly limited. On the other hand, tertiary industries have vast potential. Right now it seems that finance, trade, manufacturing, construction, tourism and services, often called the pillars of the Hong Kong economy, will continue to flourish, but their relative importance will change. Some people believe that real estate has peaked; from now on it will be downhill all the way. This is debatable. Over-speculation and lopsided development in the property market unquestionably provided a shortcut to wealth in the past. But violent fluctuations in property values have also negatively affected the normal and healthy growth of commerce and industry. Henceforth while the excesses of speculation will be checked, normal real estate transactions will continue to be an indispensable part of the economy as industry and commerce continue to develop and people continue to improve their living conditions. After all, Hong Kong has very limited land resources and the "joint declaration" states in its appendix that no more than 50 hectares of land will be made available every year, apart from land earmarked for public housing. Recent land auctions have given us a glimpse into the future.

To sum up, Hong Kong's industrial structure will overcome its abnormalities and become more balanced and healthy in the transitional stage.



### III

It should be noted that there is as yet no consensus regarding Hong Kong's economic prospects in the transitional stage. An Englishman named Walter Easey, for instance, was downright skeptical about the "joint declaration" and even criticized it. He said, "What the Chinese and British governments have reached is only a joint declaration, not an international agreement. Either side can ignore the provisions in the declaration without incurring any legal liability." "They (the Chinese) simply cannot guarantee that the nation's system will not change, and neither can the British."<sup>4</sup> Some people in Hong Kong probably remain doubtful that Chinese policies can last. Others believe that while stability is possible, prosperity is something else. Yet a third group think that short-term prosperity and stability are assured, but medium- and long-term prospects are too early to tell. (Does the so-called medium term refer to the transitional stage?) Such misgivings are entirely understandable. Basically it boils down to doubts about the consistency and continuity of Chinese policies because past Chinese economic policies did err in a number of ways. But we must not lose sight of the fact that China's open door policy and economic reforms are not the whims of a particular leader but are the passionate yearnings of one billion people and meet the demand of the objective law of the progress of social history. Whatever personnel changes may happen in China's leadership in the future, this policy absolutely will not change. Today as in ancient times, in China and elsewhere, no action that seeks to block the progress of history can last, while one which complies with the law of historical development is unstoppable. The question whether the "joint declaration" can be implemented to the end should also be examined in the same light. Not only is it in keeping with the interests of Britain, China and the people of Hong Kong, but it has also been praised by nations around the world. Not only was it solemnly signed by British and Chinese leaders, but it has also been made known to the world and acclaimed as a model in managing international relations. If either party fails to live up to its obligations under the "joint declaration," how can it hold its head high? How is it going to maintain its credibility in the world? Mr. Xiang Zhiqiu [7449 2784 3808], chairman of the Taisheng Development Company and a well-known Hong Kong figure, remarked as early as December 1982, "Hong Kong has already experienced two major transfers of wealth since the liberation. The first major transfer took place during the Korean War when foreign capitalists desperately tried to unload their land holdings. The Chinese bought the land and put up multi-unit buildings, selling them off unit by unit. The result was that wealth changed hands, from the foreigners to the Chinese. The second shift took place during the riots in 1967 when wealth was transferred from Hong Kong people who had no sense of belonging to those who did. I think we are now witnessing the third major shift of wealth, from people who do not believe in communism to those who do. In other words, it will be a fateful decision whether or not capitalism is allowed to continue to exist after China takes back Hong Kong."<sup>5</sup> An intriguing observation. A while ago, some people momentarily misread Hong Kong's future and emigrated abroad or moved their assets overseas. Following the signing of the "joint declaration," more and more of them are heading back home, taking their funds with them. This is perhaps indicative of the mood of entrepreneurs in Hong Kong.

Another factor that has received widespread attention is the effect of protectionism on Hong Kong's export trade during the transitional stage. Hong Kong's economy has been export-oriented throughout these years; booming exports mean economic prosperity, while depressed exports mean hard times. Hong Kong's major markets are the United States, China, Britain and West Germany, particularly the United States. Some people worry that the rise of protectionism will deal a fatal blow to Hong Kong's economy. In fact, things will not get this bad. Despite the outcry from affected Hong Kong industries over protectionism in the United States over the past 2 years, despite the fact that the United States from 1982 through 1984 increased from 24 to 49 the number of Hong Kong products subject to quota, and despite the fact that the United States has threatened to keep out Hong Kong exports 16 times, their value continued to soar by as much as 34 percent in 1984 and registered a gain of 15 percent last January and February over the same period in 1984. The boom-and-bust cycle we see in Western nations is an inevitable phenomenon of the capitalist economy. In the 30-odd years since World War II, while the capitalist world went from one economic cycle to another, the Hong Kong economy has been growing consistently at a rate which it can be proud of, despite periodic unevenness. In short, protectionism and cyclical recessions in the United States and other Western nations are bound to have some effects on Hong Kong, a fact which must be fully taken into account, but it will not derail Hong Kong's economic development as a whole.

The general trend of Hong Kong's economic development in the transitional period gives us cause for optimism. Of course, the course of economic development will not be a linear progression because of the interplay of internal, external, subjective and objective factors, particularly certain temporary phenomena. Twists and turns and setbacks are to be expected. But as long as China and Britain cooperate closely and enterprising people from all walks of life in Hong Kong commit themselves to national vitalization through hard work, prosperity and stability are a foregone conclusion.

#### FOOTNOTES

1. In Hong Kong statistics, visible trade "deficit" is the excess of imports over exports expressed as a percentage of the total value of imports. According to trade figures from 1947 through 1984, the lowest such "deficit" was 0.9 percent, recorded in 1984. The highest was 41.4 percent, in 1957.

2. Zhang Xueyao's [1728 1331 1031] speech at the seminar, "Opportunity and Challenge--the Hong Kong Economy in the '90s." See JINGJI DAOBAO, No 1915. Speaking at another seminar, Huang Xuezhao [7806 6930 3564], deputy director of industry, said, "Chinese investments in Hong Kong amounted to HK\$31 billion in the past 4 years." In a special report on Hong Kong in its 11 May 1985 issue, the ECONOMIST of London put the figure at \$6 billion at least.

3. See the translation of Cun Tian Tai Fu's article, "Influx of Chinese Capital into Hong Kong" in Singapore's LIANHE ZAobao, 30 April 1985.

4. Hong Kong XINBAO, 6 April 1985 p 11.

5. Hong Kong XINBAO-CAIJING YUEKAN, December 1982. Vol 6, No 9, p 8.

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CSO: 4006/721



HONG KONG ECONOMIC TRENDS

OVERSEAS INDUSTRIAL INVESTMENT UP IN HONG KONG

OWO12034 Beijing XINHUA in English 1638 GMT 1 Aug 85

[Text] Hong Kong, August 1 (XINHUA)--The number of enquiries the Hong Kong industry department has received from overseas investors has noticeably increased in the past few months, said a department official here Wednesday.

Speaking at a meeting on promotion services of overseas investors, Richard Chan, the department's principal consultant, said that his department is carrying on active discussions with about 450 overseas companies which are interested in investing in Hong Kong.

Hong Kong continuously encourages overseas investment in its manufacturing industry for the inflow of technology, expertise and established markets that are inherent in ventures with overseas interests, Chan said.

Some 500 industrial undertakings with foreign participation are operating in Hong Kong, he said, overseas investment in them amounts to about 1.48 billion U.S. dollars, and they employ about 10 percent of the local industrial workforce.

These companies' sales totalled over 3.48 billion U.S. dollars in 1983, he said.

According to a survey conducted by the department last September, the United States continued to be the largest source country; its share of investment in Hong Kong's manufacturing industry accounted for 53.7 percent, followed by Japan, 21.1 percent, and then Britain, the Netherlands, the Philippines and Switzerland.

The department has four industrial promotion offices -- in Tokyo, London, Stuttgart and San Francisco -- and a fifth will be set up in New York later this year, Chan said.

CSO: 4020/314

HONG KONG ECONOMIC TRENDS

PROTECTIONISM THREATENS HONG KONG DEVELOPMENT

OW040320 Beijing XINHUA in English 0236 GMT 4 Aug 85

[Text] Hong Kong, August 4 (XINHUA)--Hong Kong is now in the early stage of an industrial revolution in which the future export earnings will be based more on the application of knowledge and skills than on labor-intensive assembly work.

Allen Lee, chairman of the Hong Kong productivity center, made this remark at a monthly gathering of the Hong Kong association for the advancement of science and technology here on Friday.

Hong Kong's economic prospects, he said, are facing many threats and the major one is increasing protectionism in the markets of developed countries.

Despite a general trend towards liberalization of world trade, there has been a noticeable trend towards bilateral restraints in the trading of textiles and clothing, Lee said.

These restraints have restricted the growth potentials of products over which Hong Kong remains competitive, he added.

Many industries in Hong Kong, Lee said, will be affected by the combined pressures of rapid technological developments in advanced countries as well as the expansion of production capacity based on low-cost labor in the Asian pacific region.

Therefore, he said, active measures must now be undertaken to strengthen the technological infrastructure and to educate and train the labor force to meet the needs of the technological era.

According to Lee, the Hong Kong government has embarked upon a program of expansion and continued improvement of technical education and industrial training.

There will be three new technical institutes which together will have a capacity of about 37,500 places by 1987. In addition, nine new vocational training centers will provide training for nearly 9,000 craftsmen and operatives, he said.

Hong Kong's manufacturing industry, which includes clothing, electronic products, plastic products, metal products and textiles, accounts for an estimated 25 percent of GDP (gross domestic product) and employs about 36 percent of the total labor force. The direct and indirect contributions of the industry amounts to approximately 50 percent of GDP, Lee said.

CSO: 4020/314

HONG KONG ECONOMIC TRENDS

HONG KONG TRADE GROUPS URGED TO SOLICIT FUNDS TO FIGHT JENKINS BILL

HK090703 Hong Kong SOUTH CHINA MORNING POST (BUSINESS NEWS supplement) in English 7 Aug 85 p 1

/Article by Paul Baran/

/Text/ A call for the Hong Kong General Chamber of Commerce (HKGCC) and other trade bodies to solicit funds for a US\$2 million war chest against the Jenkins Bill and other U.S. legislation was debunked yesterday by members of the private sector.

The proposal came yesterday from the chairman of the American Chamber of Commerce's (Amcham) textile committee, Mr Thomas Goetz, who also advised local companies to start a U.S.-bound direct mail campaign against the bill.

Mr Goetz's idea is similar to one put forward in June by the chairman and chief executive officer of the U.S.-based Associated Merchandising Corp, Mr Lee Abraham, who suggested the government, textile and garment exporters and business groups form a coalition to present a unified front against the bill.

Little resulted from the call, apart from the Trade Department's comment that such a coalition already existed through its meetings with the Textile Advisor Board and civic trade organizations.

Speaking after his Rotary Club speech, Mr Goetz said he hoped his call would prompt local trade groups--particularly the HKGCC and textile manufacturing associations--to begin soliciting funds from members to bankroll at least three lobbyists in Washington.

He conceded, however, that it's "almost too late" to start fighting now and said it was a paradox that industry has been waiting for government "to fight our battles when, for all these years, we asked government to leave us alone."

But HKGCC director, Mr Jimmy McGregor, while agreeing that more could be done in both sectors to combat the bill, said the proposal was "a nice idea, but it needs central government organization" to succeed.

With signs mounting that the bill may be voted on in congress soon after the end of the summer recess, Mr McGregor said "I don't see what \$2 million is going to do" to combat the proposal.

Hong Kong manufacturers, he said, "have always been willing to spend money when they see clear advantages" in the outlay.

But since the government already has warned industry that the effects of lobbying are not seen overnight, he said "it is difficult to think they (local firms) will dig deep" at this stage.

He criticized the government, however, for not taking a leadership role in marshalling private sector activities against the bill.

"The government has not taken a lead in indicating to trade and industry what additional steps can be taken," he said.

Commenting on the criticism, a senior Trade Department official reiterated earlier statements that it is in regular touch with the private sector.

The official, however, said new ideas on ways to fight the bill were "always welcome."

The government has one lobbyist on Capital Hill, as well as a Washington-based Trade Development Council (TDC) representative and an office in New York run by the Hong Kong Commissioner, Mr Bill Dorward.

Local textile exporter Lark International has also hired its own lobbyist in Washington.

The Jenkins Bill seeks to trim textile imports from major exporting nations by limiting growth to one percent a year.

Hong Kong's exports bound by the Multifiber Agreement (MFA) would be cut about 13 percent, while its exports of non-MFA items would be almost wiped out.

During his speech, which focused largely on by-now familiar arguments against the bill, Mr Goetz said it was time the private sector chipped in.

Referring to the TDC lobby in Washington, he said: "If we think that one man with Democratic Party ties can get Hong Kong's side of the textile trade story across to a Republican administration, we are naive regarding U.S. political reality."

Afterwards, he said: "I don't think it's fair for us to ask the government to protect us when we don't pay such terribly high taxes."

"This really is a businessman's fight," he said. "We should come in and support the government by enlisting additional lobbyists."

Amcham, he said, should not take an active role in the proposed fundraising campaign since "we are the guest club" in Hong Kong.

HONG KONG ECONOMIC TRENDS

HONG KONG BANK CHAIRMAN ON MARKET, FUTURE

OW071943 Beijing XINHUA in English 1906 GMT 7 Aug 85

/Text/ Hong Kong, 7 Aug (XINHUA)--Hong Kong's leading bank has "definitely not" transferred assets abroad, and is confident in the region's economic prospects, its chairman said here last week.

Michael Sandberg, chairman of the Hong Kong and Shanghai Banking Corporation (hongkongbank), also dismissed local press speculation that the bank's business here had reached saturation point.

He said in an interview with XINHUA: "We have increased certain international business, but this definitely does not mean a transfer of assets from Hong Kong.

"At the moment, our assets in Hong Kong equal about one-third of our total. Percentage-wise this is lower than 20 years ago, but in terms of dollars and cents it is many times more."

He admitted it was difficult for his bank to increase its market share in Hong Kong, due to the considerable increase in the number of banks operating here.

For this reason, the bank had decided to develop overseas markets, while continuing to play a major role in Hong Kong.

But he added: "The bank's business in Hong Kong, in actual dollars and cents, is still growing, and will not reach the point of saturation."

Hong Kong had always been their single largest market, he said, adding: "Our international business expansion has also brought certain advantages to Hong Kong's economy. Hong Kong is and will be the location of hongkongbank's headquarters."

Sandberg described their new 52-floor headquarters building, which has just opened here, as "concrete proof."

The banker predicted that Hong Kong's position as an international financial center would be maintained in the future.

Events since the signing of the Sino-British joint declaration had supported his view that the agreement "would bring brighter prospects for Hong Kong's economic development."

Sandberg did not deny that funds were sitting idle in the banks because of inadequate loan demand.

But he said: "Demand for loans in the market is gradually increasing. There is a big demand in the public sector, and the situation in the other sectors is also improving.

"The question is that loan demand from the manufacturing sector has not yet returned to normal."

During the Sino-British negotiations, he said, some industrialists hesitated in committing long-term investments, but "now that the declaration has been signed, the confidence of these industrialists will return. "This, however, will take some time."

Referring to developments in China, which in Sandberg's view have an important bearing on Hong Kong's future, he said China's economic reforms over the past 4 or 5 years had in general achieved great success.

He added: "We shall continue to expand our business in China with the greatest speed permitted by the Chinese authorities."

CSO: 4020/322

HONG KONG ECONOMIC TRENDS

HONG KONG REAL ESTATE MARKET RECOVERING

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/Text/ Hong Kong, 30 Jul (XINHUA)--There are positive signs of a recovery in Hong Kong's construction industry with confidence once more returning to the property market, said Secretary for Lands and Works Nicky Chan here Monday evening.

Projects estimated to total more than 3,800 million Hong Kong dollars (487 million U.S. dollars) were selected to begin during this financial year starting 1 April, he said at a meeting of the local building contractors' association.

The Hong Kong Government remains firmly committed to maintaining the momentum of the city's development for years to come, Chan said.

Among indicators of the reactivating property market are increased cement imports, rising rents, a greater demand for office space and housing, and encouraging responses to land auctions since the signing of the Sino-British joint declaration on the future of Hong Kong last year.

Increasing confidence in the future of Hong Kong and a growing economy due to China's new open policy all help stimulate the demand for residential flats, local analysts say.

More than 30,000 families in Hong Kong became homeowners during the first half of this year by taking out mortgages.

Hundreds of people queued up recently outside the sales office of a real estate developer when its flats situated above an underground railway station went on sale.

Earlier statistics show that some 25,700 sales and purchase agreements were signed in the first half of 1985, up 65.6 percent on the same period last year.

Since last September, the price of large apartments (with an area of over 1,500 square feet) has shot up by 35 percent and that of medium- and low-price estates and industrial buildings by 15 and 10 percent, respectively.

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BRIEFS

BANK GIVEN STANDBY CREDIT--The Hongkong and Shanghai Banking Corp issued a statement at 7:00 p.m. last night declaring that in conjunction with the Hong Kong branch of the Bank of China, it has extended a substantial standby credit to the rumor-plagued Ka Wah Bank. The statement expresses deep concern on the part of both the Hongkong Bank and the Bank of China about the effects of rumors on Hong Kong-licensed banks. The full text of the Hongkong Bank statement is as follows: "The Hongkong and Shanghai Banking Corp is concerned about the rumors surrounding certain Hong Kong-licensed banks, particularly Ka Wah Bank. The Bank of China has also expressed its concern about the effects of such rumors, which have forced the Ka Wah Bank to take necessary preventive measures to improve its cash flow. All parties concerned, including the Superintendent of Banks, held an extensive closed door discussion over the weekend. To deal with the present situation, the Hongkong and Shanghai Banking Corp, in conjunction with the Bank of China, has offered to Ka Wah Bank a large standby credit." Speaking to reporters last night, both the chairman of the Hongkong Bank, Sorby, and the head of the Hong Kong and Macao office of the Bank of China emphasized that Ka Wah Bank is a financially sound, well-managed bank and that the latest incident is purely a repercussion of the events involving the Overseas Trust Bank. They believe the rumors will soon subside. [Text] [Hong Kong TA KUNG PAO in Chinese 18 Jun 85 p 4] 12581

PRC CAUSING BRAIN DRAIN--China's growing need for specialists has triggered a brain drain in Hong Kong, according to a top management consultancy executive. The increasing demand for China expertise by companies operating in China is making it difficult for local firms to recruit or retain experienced staff--a factor which is also serving to increase salary levels, said Miss Rigg, managing director of the Riggs Group of Companies. "The trend has been developing for some time and appears to be accelerating," said Miss Rigg whose group is heavily involved in management consultancy and recruitment services for China. "The firms most affected are those engaged in general trading, electronics, telecommunications and manufacturing. "Since we began our China services in 1979 we have supplied nearly 10,000 employees to handle everything from secretarial duties, to staffing factories. "The majority, both Chinese and expatriates, have come from Hong Kong but we now have to spread our search further throughout the region, and other parts of the world." Miss Rigg said it was becoming apparent that while the top of the line experts were being lured to China because of their skills, knowledge of the country and promise of high salaries, they were not being replaced locally at the same pace. /Text/ /Hong Kong HONG KONG STANDARD (BUSINESS STANDARD supplement) in English 6 Aug 85 p 8/